



Invested

in our capabilities,
associates, and
communities



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STRONGER TOMORROW

We once again ended the year in a position of strength. Our long-term investment performance remained strong, our clients continued to be pleased with the quality of service they receive from us, and our balance sheet afforded us the confidence to invest in new capabilities that will grow and diversify our business.



Our associates continued to distinguish us in the marketplace, bringing to life our unique culture of performance excellence, collaboration, and inclusion—while putting our clients at the center of all we do and serving the needs of communities around the globe.

At the same time, several industry trends persisted—accelerating regulatory change, an aging population’s shift from equity to income-oriented solutions, the growing importance of high-quality, technology-enabled client experiences, and most notably, the migration of assets from active to passive investments.

On the topic of active management, we believe that active and passive will continue to coexist and complement each other. And given the need of investors around the world for returns, we believe there will always be demand for good active management.

We know active management is not easy, but we are confident that we possess the core attributes to do it well. These include:

High integrity and financial strength

An intense focus on people, investment process, and culture

Reasonable fees and a long-term time horizon

Recognizing the opportunities and challenges in our industry, this year we completed an extensive review of our strategic priorities as an organization and took the first steps on a multiyear path to seize the global opportunities that we identified to grow and diversify our company.

As a result, we are investing substantial resources in new products, distribution, and digital technology enhancements. These investments will expand and diversify our business—creating a competitive advantage today and positioning us well for the future.

Looking ahead, we see clear opportunities for T. Rowe Price as a premier, diversified active asset manager, integrated investment solutions provider, global retirement investor partner, and destination of choice for top talent.

Read on to learn more about how we are **invested** in our capabilities, our associates, and our communities—and the role each plays in our performance today and in our plans for tomorrow.

Dear Stockholder:

If ever there was a year that defied experts' forecasts, 2016 would win the prize. We began the year with a crowded field of presidential candidates and ended with one of the most remarkable upsets in recent U.S. political history. This result followed upheaval in Europe, where UK citizens voted to withdraw from the European Union. Similar movements across the Continent could create further disruptions to the status quo in 2017. Financial markets fell sharply in January over concerns that a slowing economy in China would hurt global economic growth. Stocks demonstrated remarkable resilience though and clawed their way back to attractive returns for the year.

The S&P 500 Index delivered 12% in 2016 and small-cap stocks performed even better, with the Russell 2000 Index returning in excess of 21%. The MSCI All Country World Index (excluding the U.S.) returned 5%, and the MSCI Emerging Markets Index gained nearly 12%. All in all it was a rewarding year for equity investors.

Gains in fixed income markets were harder to come by, with the exception of the high yield bond sector, which generated equity-like returns. The Bloomberg Barclays U.S. Aggregate Bond Index returned 2.7% as interest rates rose modestly during the year. In a widely expected decision, the Federal Reserve raised its federal funds target rate in December and suggested that additional increases are likely in 2017. After several years of essentially zero returns, money market fund investors are looking forward to a more normalized interest rate environment.

FINANCIAL REVIEW

Despite growing industry headwinds, your company performed reasonably well in 2016. Assets under management (AUM) increased from \$763 billion at the beginning of 2016 to \$811 billion on December 31, 2016. Average AUM for the period was \$778 billion. Revenues of \$4.2 billion rose 0.5% versus 2015, while net income was approximately \$1.2 billion. Fully diluted earnings per common share rose from \$4.63 in 2015 to \$4.75 in 2016, primarily reflecting fewer shares outstanding. Our return on equity, a good measure of corporate profitability, rose from 24% in 2015 to 25%.

Our financial position remained exceptionally strong, with cash and sponsored investments of approximately \$3.2 billion and no debt. During the year, we invested several hundred million dollars in "seed capital" to jump-start a range of new investment offerings and business opportunities. We also repurchased 10 million shares of stock—4% of outstanding shares. In February 2016, our Board of Directors increased our regular annual dividend from \$2.08 per share to \$2.16 per share, representing the 30th consecutive year of dividend increases since our initial public offering in 1986. We view regular dividend increases and stock repurchases (at reasonable prices) as important components of our long-term strategy to build stockholder value.

PERFORMING FOR OUR CLIENTS

Delivering strong investment performance and world-class service for our clients are always our top priorities—and we worked hard on both in 2016. Our 2016 investment performance was solid, with 53% of our funds outperforming their Lipper averages. Longer-term results, though, have been outstanding, with 84%, 80%, and 86% of our funds outperforming their Lipper averages over three, five, and 10 years, respectively. Investment performance over longer time periods was similarly strong in our institutional investment offerings. Our client satisfaction scores across all distribution channels remained excellent.

We had particularly outstanding investment performance in several investment areas. Most notably, David Wallack, who manages our Mid-Cap Value Fund, was named by Morningstar as its 2016 U.S. Domestic Stock Fund Manager of the Year—the "Academy Award" for outstanding investment performance. David Wagner, manager of our Small-Cap Value Fund, also did a great job and was cited by Bloomberg as one of the top stock pickers for 2016. Several of our international portfolio managers also performed particularly well: Archie Ciganer, portfolio manager of our Japan Fund, and Gonzalo Pángaro, portfolio manager of our emerging markets equity strategy, generated very strong performance in a challenging environment. On the fixed

income side, Steve Huber, manager of our global multi-sector bond portfolios, and Mike Conelius, manager of our Emerging Markets Bond Fund, likewise deserve special mention.

The investment management industry grows increasingly competitive every year, with more and more strategies vying for investors' attention. In 2016, passive strategies captured the lion's share of net cash flows, and we experienced modest redemptions—despite our strong long-term performance. We believe there is a place for both active and passive strategies in clients' portfolios, and in fact, we use both in many of our asset allocation portfolios. Well-executed active management may not be easy, but T. Rowe Price has a long history of doing it well. One example that drives home the point is the long-term performance of our Retirement Date Strategies, which invest across a range of underlying T. Rowe Price portfolios. Each of our Retirement Funds with at least 10 years of history has outperformed its passive benchmark, highlighting the broad strength of our investment platform.

REINVESTING IN THE BUSINESS

We accelerated investment in three key areas to grow and further diversify our company, including a number of initiatives to broaden our investment capabilities. We introduced several new quantitative investment strategies in 2016, labeled T. Rowe Price QM, to complement our more fundamentally based equity strategies. We also completed the groundwork to introduce new funds in 2017—with a focus on providing investment income and retirement income solutions—and we established a three-year product development plan for our equity, fixed income, and asset allocation businesses.

Broadening our distribution capabilities is also a key focus, and we are in the midst of a multiyear plan to strengthen our sales and client service teams. We want to be a trusted partner for a growing number of clients around the world. To enhance our clients' experiences with us, we're investing heavily to upgrade online capabilities. We are boosting our investment in technology and talent, and we are pleased with our early progress.

Financial Highlights

(in millions, except assets under management and per-share data)

| As of and for the years ended December 31, | 2015 | 2016 |
|--|----------|----------|
| Assets under management (in billions) | \$ 763 | \$ 811 |
| Net revenues | \$ 4,201 | \$ 4,223 |
| Net income attributable to T. Rowe Price Group | \$ 1,223 | \$ 1,215 |
| Diluted earnings per common share | \$ 4.63 | \$ 4.75 |
| Cash dividends per common share | \$ 4.08* | \$ 2.16 |
| Cash and cash equivalents | \$ 1,172 | \$ 1,205 |
| Stockholders' equity | \$ 4,762 | \$ 5,009 |

*Cash dividend declared and paid in 2015 includes a special dividend of \$2.00.

TRANSITIONS

Last year was notable for the retirements of several long-tenured investors who have served our clients extremely well for many years.

Rich Whitney, who skillfully led our asset allocation business, worked at the firm for more than 30 years and is responsible for many innovations at the firm over the last three decades. Bob Smith managed both the Growth Stock Fund and the International Stock Fund and had distinguished investment performance during his several-decade tenure. Preston Athey, manager of our Small-Cap Value Fund, joined the firm almost 40 years ago and became one of the industry's best-known small-cap investors. And finally, Greg McCrickard, manager of our Small-Cap Stock Fund, retired in the fall of 2016 after 24 years of strong investment leadership. Greg, however, will return as a part-time consultant in April 2017.

These individuals represent the best of T. Rowe Price. And while we spend an enormous amount of energy planning for transitions like these and have a deep bench of talented associates ready to carry the torch, we will miss each of them and wish them all the best.

BOARD OF DIRECTORS ADDITION

In 2016, we welcomed a new director, Sandra Wijnberg, to our Board. Sandra has a wide range of financial experience as Executive Advisor of Aquiline Capital Partners and having previously served as the chief financial officer of Marsh & McLennan. She has a keen understanding of the financial services sector and the investment management industry. We are very pleased to have her join our Board of Directors.

THE YEAR AHEAD

We expect that the U.S. economy will continue to grow at a moderate pace in 2017. There has been no shortage of conjecture on the potential impact of many of the pro-growth proposals put forth by President Trump, and the U.S. equity market has rallied in anticipation of increased stimulus. We look forward to progress on tax reform, deregulation, and an infrastructure program that would provide a boost to the U.S. economy. Time will tell how successful these initiatives will be.

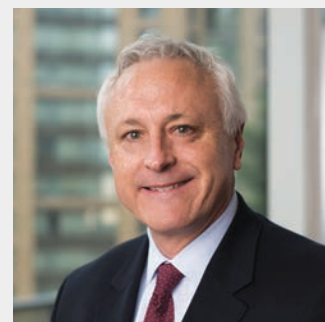
Following the Fed's December 2016 short-term interest rate increase, it appears that the central bank will gradually raise rates during the year. Recent action in the bond market, however, suggests that fixed income assets may face some headwinds in 2017 as investors carefully watch for signs of inflation and acceleration in economic growth. And after eight years of gains following the end of the global financial crisis, stocks' valuations are now above long-term averages, and we expect more moderate returns in the coming years.

Whatever the environment, your company is reinvesting to prosper in the years ahead. Our talented associates, six thousand strong, are focused on helping our clients achieve their investment objectives. Our strong reputation and financial position provide the ingredients necessary to grow the value of your investment over time.

THANK YOU FOR YOUR CONFIDENCE IN T. ROWE PRICE.



Brian C. Rogers
Chairman and CIO



William J. Stromberg
President and CEO



A note from Bill Stromberg on Brian Rogers

In November of last year, we announced that Brian Rogers would retire from T. Rowe Price on March 31, 2017, after nearly 35 years of service to our firm and our clients. Brian will step down from his role as chief investment officer at that time but will remain on the Board of Directors and serve as non-executive chair.

Brian joined T. Rowe Price as a portfolio manager in 1982 and subsequently served as portfolio manager of the Equity Income Fund for a remarkable 30 years. He also was the first manager of the Value Fund and founding member of the team managing the Institutional Large-Cap Value Equity Strategy. Brian was named chief investment officer in 2004 and became T. Rowe Price's Board chair in 2007.

Brian has been a calm and steady hand at the helm through multiple market cycles and will long be remembered for his insightful industry perspective, sound financial discipline, commitment to Board diversity, and corporate governance focus. He is generous of spirit and his time and has made as positive an impact on the firm and our clients' success as he has on the industry and our community.

While we will certainly miss you in our day-to-day operations, Brian, we congratulate you on a truly outstanding career and look forward to your continued leadership as Board chair.

Bill Stromberg

INVESTED

Growing our capabilities around the globe

The growth of investable assets continues around the world.

As a firm, we monitor that growth, listen to our clients, invest in our business, and work to capitalize on an evolving global marketplace on behalf of our clients, associates, and stockholders.

In 2016, we continued to expand our presence globally, supported continued development of investment vehicles to meet client needs—within and across asset classes—and increased investments in technology-enabled service experiences.



Multi-asset Capabilities

Trends suggest that global demand for multi-asset investment solutions is on the rise. In fact, some models suggest that net new flows into these products could reach several trillion U.S. dollars.

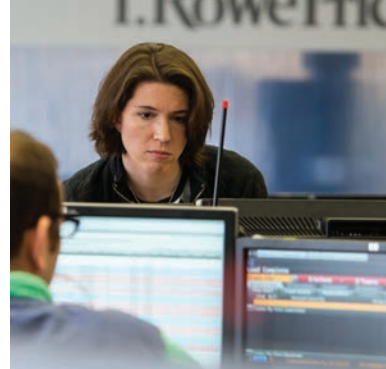
T. Rowe Price is well positioned to meet this demand—both in the U.S. and around the globe.

“We’re starting from a position of strength, with a long track record of developing outstanding multi-asset portfolios and historically strong performance across different market environments,” explains Head of Asset Allocation Sebastien Page.

And while headwinds do exist, including increased competition in our core U.S. retirement franchise, we are investing in key initiatives that will strengthen our capabilities:

- Maintaining our leadership position in our core target date business
- Expanding our global presence—by product, region, and channel
- Broadening our solutions capabilities—by deploying our expertise to develop more customized separate account mandates and packaged products

INTERNATIONAL FINANCE CENTRE MALL, HONG KONG
Located one block from our Hong Kong office, a hub for our investment activities in Asia.



We are well positioned to help clients capitalize on global investment trends—wherever they may be.

DEFENDING AND ENHANCING THE CORE

Amid significant market volatility, the firm has maintained its industry leadership in the target date business, with 96% of our Retirement Funds beating their 10-year Lipper averages as of December 31, 2016.* Such steady performance is certainly one factor in the rise of assets under management in multi-asset portfolios as a whole to \$239 billion as of December 31, 2016.

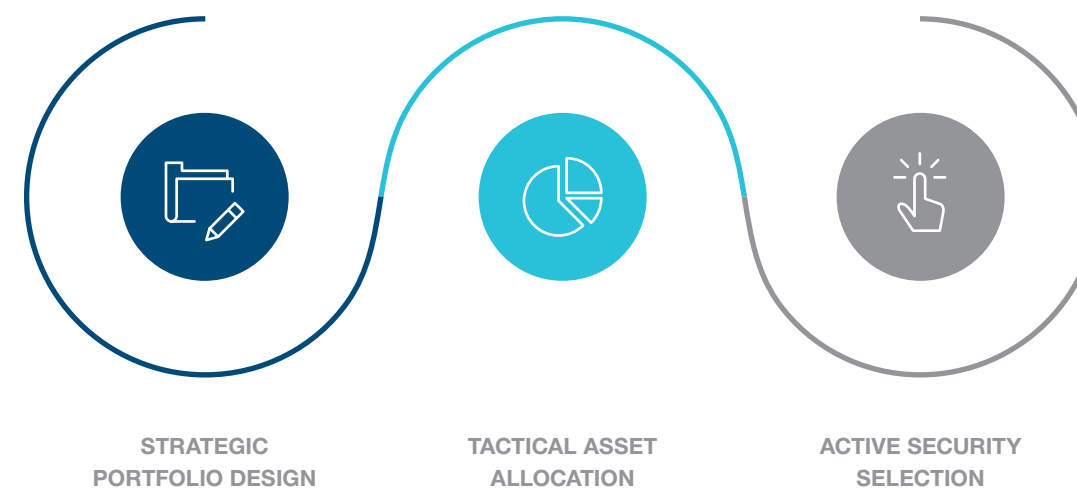
LEVERAGING THE FUNDAMENTALS

Our process builds on the firm's fundamental belief and capabilities in active management to deliver multi-asset advice, portfolio diagnostics, and customized investment solutions to clients, financial advisors, and intermediaries across the globe.

*24 of our 36 Retirement Funds had a 10-year track record as of 12/31/16 (includes all share classes). 23 of these 24 funds (96%) beat their Lipper averages for the 10-year period. 21 of 36, 35 of 36, and 35 of 36 of the Retirement Funds outperformed their Lipper average for the 1-, 3-, and 5-year periods ended 12/31/16, respectively. Calculations are based on cumulative total return. Not all funds outperformed for all periods. (Source for data: Lipper Inc.)

Asset Allocation Process

Through the use of these three components of our investment process, we are delivering multi-asset advice, portfolio diagnostics, and customized investment solutions to clients, financial advisors, and intermediaries across the globe.



Strategic Portfolio Design utilizes a range of analyses and considers the unique objectives of a specific strategy, risk/return targets, client guidelines (such as liquidity needs and risk tolerance), and underlying asset classes and sectors.

Tactical Asset Allocation drives decisions to overweight or underweight asset classes and sectors based on perceived valuation opportunities in global financial markets over a 6- to 18-month time horizon.

Active Security Selection emphasizes the power of actively managed strategies in global equities, fixed income, and alternatives, leveraging the insights and experience of hundreds of T. Rowe Price research analysts and portfolio managers worldwide.

GLOBALIZING OUR BUSINESS

Our efforts to diversify globally include the introduction of new products—such as our recently launched Global Allocation SICAV in Europe—in new markets and across multiple channels.

Long-term plans will significantly increase the size of our dedicated multi-asset investment staff; enhance our asset allocation investment platform to reduce risk, increase scale, and enable innovation; and deliver both customized multi-asset solutions and custom glide-path target date capabilities.

Our diversified distribution model is a durable source of strength and stability for T. Rowe Price. We distribute our investment strategies and related services to individuals, retirement plans, financial intermediaries, and institutions, and each channel is integral to our long-term success.

Throughout 2016, we made important strides in all areas of distribution—particularly our work with financial intermediaries. In the United States and in regions around the world, we positioned ourselves for greater growth while redoubling our efforts in execution.

BUILDING ON A STRONG FOUNDATION IN THE U.S.

“In the U.S., we’re building on 25 years of successful engagement in professional buyer channels,” says George Riedel, head of U.S. Intermediaries. “We’ve built long-tenured relationships with clients and established our brand across a diverse intermediary landscape.”

In what was already a rapidly evolving industry, Mr. Riedel notes that the pace of change is accelerating at the same time the intermediary business is becoming increasingly complex and interconnected. A trend away from brokerage models toward advisory approaches also is becoming evident. Fortunately, T. Rowe Price is well positioned for this emerging fiduciary landscape

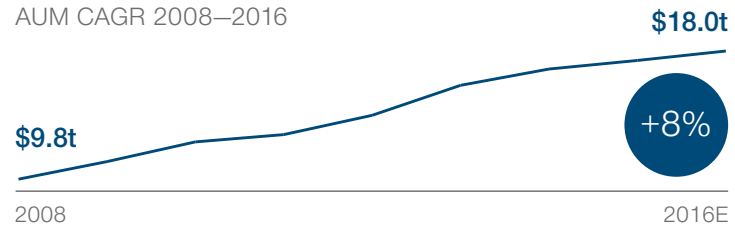
based on our proven experience with advisory platforms and buyers, fiduciary-aligned culture and product offers, and strong asset allocation insights and expertise.

“We’re positioned to be on the right side of the change,” says Mr. Riedel. In fact, nearly 80% of the firm’s business with intermediaries is advisory related.

Looking ahead, our priorities include delivering multi-asset insights and strategies; deepening our relationships with advisors; continuing to support the advisory trend; and investing in diverse, investment-savvy talent.

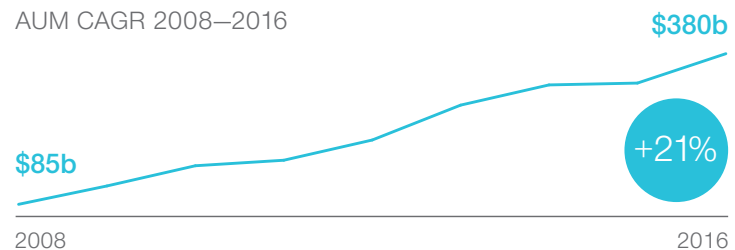
U.S. Intermediaries Market

AUM CAGR 2008–2016



T. Rowe Price U.S. Intermediaries

AUM CAGR 2008–2016



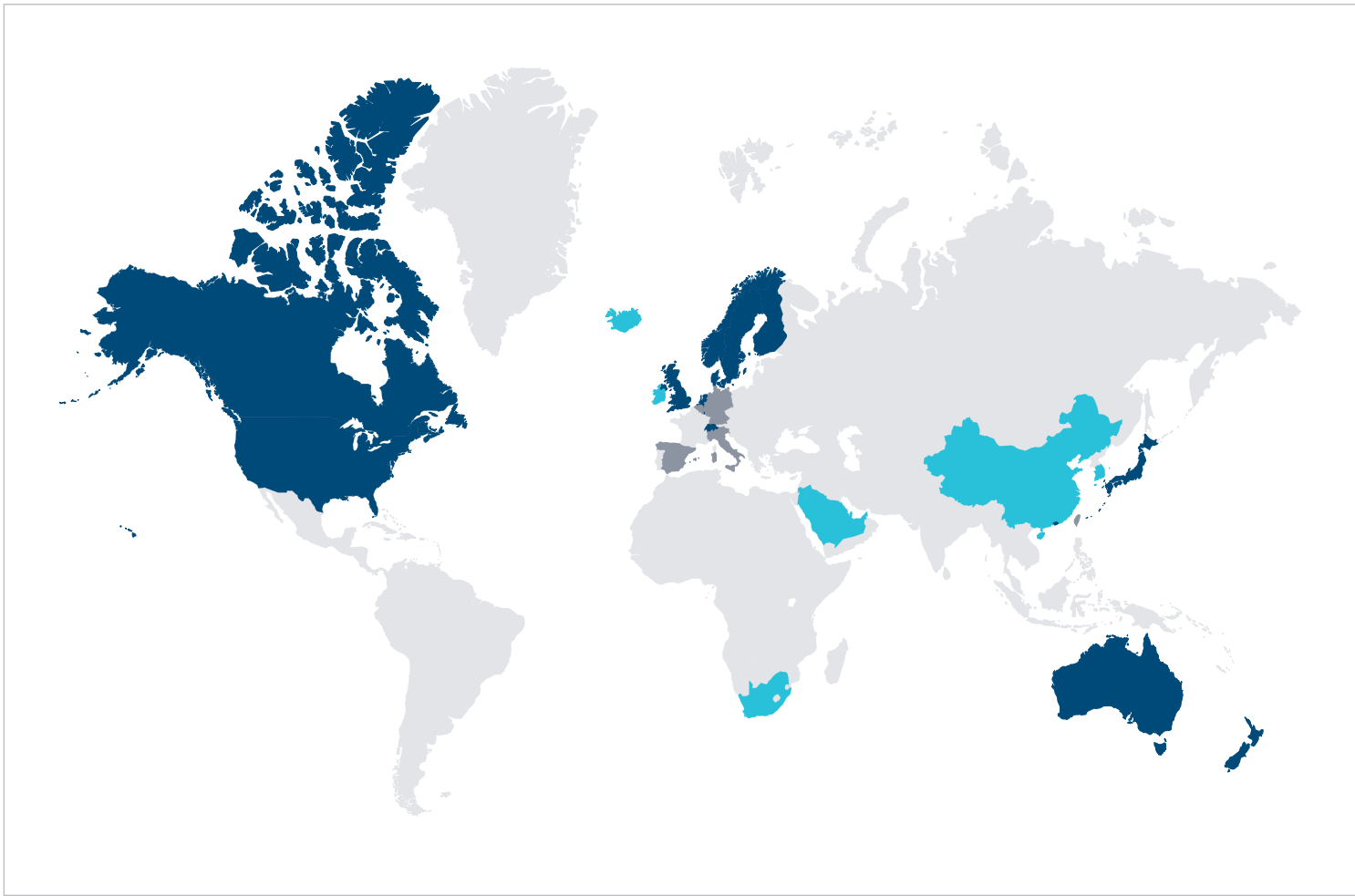
The U.S. intermediary market grew by 8% to \$18 trillion between 2008 and 2016. Our intermediary business more than kept pace, growing AUM by 21% over the same time period, to \$380 billion.

Sources: Cerulli Associates, U.S. Managed Account Quantitative Update, 2015; T. Rowe Price estimates.

“Based on our global institutional experience and our U.S. intermediary experience, we felt we were in a strong position to build out.”

Robert Higginbotham
Head of Global Investment Services





Growing our global presence

A phased approach has helped the firm establish itself with institutions and, increasingly, intermediaries.

- **PRIMARILY INSTITUTIONAL**
(including defined contribution)
- **PRIMARILY INTERMEDIARY**
- **COMBINED**



EMBRACING GLOBAL INTERMEDIARY OPPORTUNITIES

Globally, T. Rowe Price is established as an asset manager for institutional clients. More recently, the firm has undertaken a focused effort to enter intermediary markets as well, establishing a strong foothold in Europe and the Asia-Pacific region.

“Based on our global institutional experience and our U.S. intermediary experience, we felt we were in a strong position to build out,” says Robert Higginbotham, head of Global Investment Services. It is a multiyear effort, begun in 2014 and still underway.

“These are very competitive markets,” explains Mr. Higginbotham. “Three years ago, our unprompted brand

awareness amongst European intermediaries was outside the top 100. Two years later, we broke into the top 50. Now, for domestic asset classes, European equity, and European fixed income, we are a top 10 considered provider in the UK and Germany.”

The firm’s experience with retail direct and retirement plan services, as well as our decades-long relationship with large global private banks, enhances our efforts to grow our intermediary business globally.

“Brands do not get built quickly, and yet we feel we’ve established a reputation,” says Mr. Higginbotham.

“We have our infrastructure in place, and we’re gaining traction.”



Digitally Enabled Client Experience

Our clients' relationships to the digital world—and their experiences with other digital platforms—have profoundly changed over the last five years.

We are responding with a multiyear plan to ensure our clients have outstanding digital experiences with us, beginning with our Individual & Retirement Plan Services businesses.



“We complement the digital experience with a human touch. You can feel confident you’re not alone on this journey.”

David Tondreault

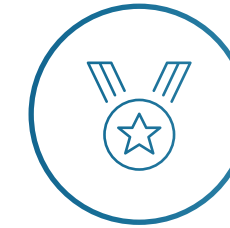
Client Services Team Leader
T. Rowe Price® ActivePlus Portfolios

Our Client Experience Transformation

Whether the audience is individual investors, intermediaries, or institutional investors, the four principles below guide our digital engagement.



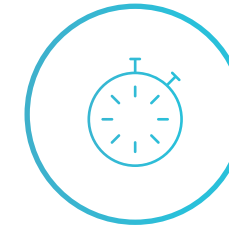
PERSONALIZED



GOAL-BASED



SIMPLE



EFFICIENT

ENHANCING OUR INDIVIDUAL INVESTOR OFFERING

Our goal is to be the investment manager of choice for individual investors. To meet that goal—especially now when virtually every experience from ride sharing to grocery shopping is digitally enabled—we recognize the need to combine the insights and expertise of our investment professionals with the ease and convenience of digital investing.

That’s why, in 2016, we launched a beta version of T. Rowe Price® ActivePlus Portfolios, a digitally enabled discretionary advice program. It allows investors to select and invest in one of 10 model portfolios designed to meet specific objectives.

Initial results have been encouraging, and we expect to make the program available to all investors later in 2017.

MAKING FINANCIAL DECISIONS RELEVANT TO EVERYDAY LIFE

With the right technology, we can present critical information in new, engaging ways. For example, this year we began delivering account statements to retirement plan participants in the form of personalized SmartVideos. These videos blend participant-specific data with educational content and provide links to tools and services based on participant needs, making it easy to take action.

“The results have been outstanding,” explains Scott David, head of Individual & Retirement Plan Services. “We’ve seen record engagement. In fact, nearly 50% of participants who viewed their video watched it twice.”

HARNESSING DATA TO OPTIMIZE RETIREMENT OUTCOMES

When retirement plan sponsors and financial advisors have immediate access to relevant plan-level data, they can be more confident that the decisions they make for the plan will result in successful outcomes for participants.

PlanView Portal, a digital tool for sponsors and advisors, simplifies day-to-day plan management, allowing administrators and advisors to efficiently collect, connect, and interpret plan data—for the benefit of plan participants.

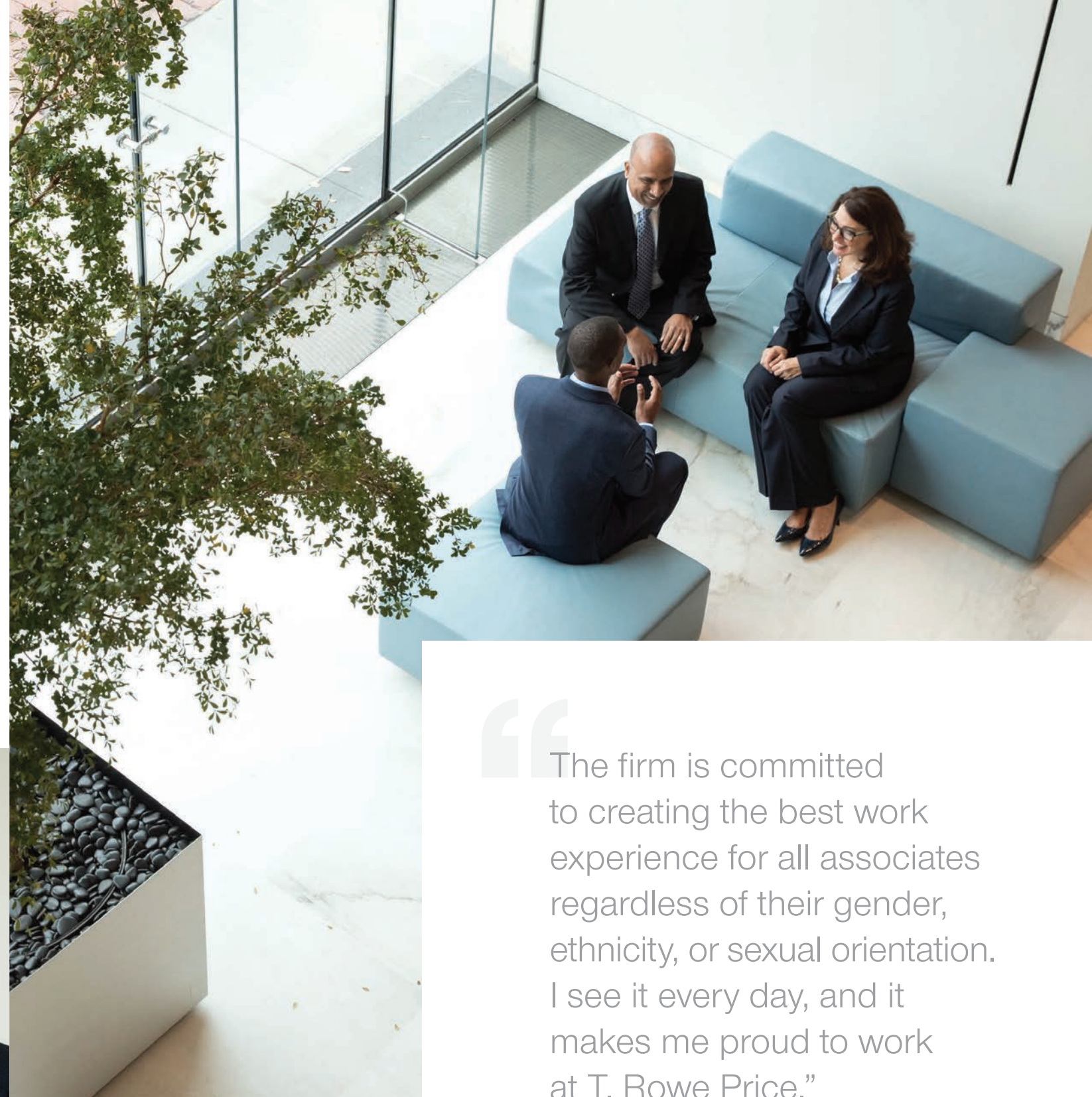
According to Diana Awed, head of Retirement Plan Services Product and Marketing, “Processes that used to take months—such as identifying, measuring, and tracking performance—can now be done almost instantaneously.”

INVESTED

Hearing every voice, every perspective

We encourage associates to bring their whole selves to work and their points of view to the table—because we believe every associate has something to contribute toward our clients' success.

The story that follows highlights our efforts to make our workplace more diverse and inclusive and to ensure we're capturing the insights, perspectives, and wisdom of all associates.



“The firm is committed to creating the best work experience for all associates regardless of their gender, ethnicity, or sexual orientation. I see it every day, and it makes me proud to work at T. Rowe Price.”

Craig Watson
Investments

A diverse and inclusive culture helps us attract and retain top talent and strengthens our competitive advantage in the marketplace.

Diversity and Inclusion

We believe that our differences are a source of strength for the firm. The breadth of our associates' perspectives helps us deliver compelling solutions for clients; better reflect the markets we serve; and create a workplace where all feel welcomed, valued, and embraced.

AN ENVIRONMENT THAT WELCOMES ALL

Our Diversity & Inclusion (D&I) strategy focuses on three principles:

- Recruit high-performing, diverse talent
- Leverage our strong and collaborative culture to promote healthy discussion and idea exchange
- Achieve both our D&I and overall business goals through active leadership and clear accountability

We ensure that we maintain diverse candidate slates—whether recruiting internally or externally. Outreach to high school and college students exposes them to careers at T. Rowe Price and the financial services industry overall. And through performance management, we hold leaders and managers accountable for creating a diverse and inclusive environment for their teams.

“We have made substantial progress in advancing our diversity and inclusion efforts and are paving the way for continued success. This work remains a journey—not a destination—an integral part of our core values and a long-term, strategic business priority for the firm.”

Angela Roseboro
Head of Diversity & Inclusion



ASSOCIATE RESOURCE GROUPS
Grass-roots, associate-led resource groups help us sustain a strong and diverse workforce.

EMPOWERING ASSOCIATE RESOURCE GROUPS

T. Rowe Price associate resource groups* help ensure that we hear diverse and inclusive perspectives on a wide range of issues affecting all associates—from recruiting to leadership development to succession planning.

The T. Rowe Price Women's Roundtable supports the firm's efforts to attract, develop, advance, and retain talented women. In 2016, T. Rowe Price was named one of the Top Companies for Women Technologists and was included in the Leadership Index of the Anita Borg Institute.

PRIDE @ T. Rowe Price was established to help ensure that all associates, regardless of sexual orientation, are comfortable bringing their full selves to work every day. The firm received a perfect score on the Human Rights Campaign's most recent Corporate Equality Index for its commitment to maintaining a comfortable, supportive environment for all associates.

MOSAIC identifies issues and opportunities relevant to talent, business practices, and culture in support of ethnic diversity. It reaches across functional lines to bring together people, ambitions, challenges, and opportunities for candid conversation, panel discussions, mentoring, and community engagement.

*These associate-led resource groups are open to all associates.

SETTING A FOUNDATION FOR THE FUTURE

T. Rowe Price is committed to maintaining a workplace where people of all backgrounds can grow personally and professionally, and we continue to invest in programs supporting that goal.

INVESTED

Strengthening our communities

Each year, T. Rowe Price associates around the world volunteer tens of thousands of hours in their communities and request millions of dollars in matching gifts for their charitable donations.

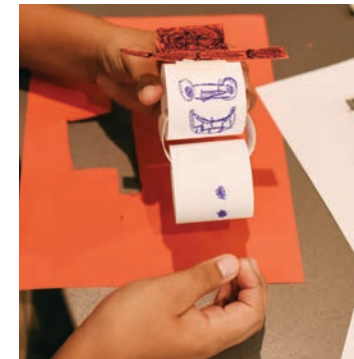
Two-thirds of the firm's roughly 6,000 associates take advantage of a wide variety of programs to support the causes about which they are passionate.

Our report this year focuses on two specific areas of outreach—urban youth and the armed forces community—each of which is supported through multiple programs across our global organization.

LITTLE FREE LIBRARY
The T. Rowe Price Foundation helped install 16 free book exchanges, called Little Free Libraries, in communities across Baltimore this summer.



BIG BROTHERS BIG SISTERS
Elementary school children enjoy a day of play, learning, and one-on-one mentoring.



Youth Outreach

Our community outreach begins with community engagement—listening, asking questions, and then collaborating to develop effective solutions.

A FRIEND AND A FRIENDLY PLACE TO LEARN

Understanding that children in the community need strong role models and mentors, and more opportunities to engage with successful people from different backgrounds and walks of life, we partnered with Big Brothers Big Sisters to bring their Beyond School Walls program to T. Rowe Price.

More than two dozen eight-year-old students visit our corporate headquarters twice a month throughout the school year. They spend one-on-one time with their T. Rowe Price associate volunteers and actively enjoy learning exercises, reading, mentoring, tutoring, playtime, and a nutritious midday meal.

Renee Christoff, head of Corporate Social Responsibility (CSR) says, "Beyond School Walls is improving the likelihood that these young people will perform better in school; seek out positive activities; and develop stronger relationships with their parents, teachers, and others."





CAREER DAY—BALTIMORE
Career Day participants discuss the research process that informs our investment decisions.

MAKING A DIFFERENCE THROUGH EDUCATION

Baltimore’s St. Paul’s School founded its Bridges program nearly 25 years ago to help close the opportunity gap that many of the city’s young people face. Bridges has since expanded into a year-round program for students ages 9 to 18.

Fortuitously, Bridges connected with T. Rowe Price about helping their students at the same time the firm was seeking additional ways to engage with high school students in our communities. That collaboration led to the birth of T. Rowe Price Career Days.

Each Career Day offers groups of 12–15 students healthy nutrition, supportive guidance and hands-on exercises to help them craft their resumes, and opportunities to hear from T. Rowe Price associates about the day-to-day work they do at the firm, such as managing social media accounts or researching stocks.

A panel of diverse T. Rowe Price associates answers questions, shares their experiences (with some not so far removed from high school themselves), and provides relevant advice. The day ends with a session of speed networking that provides the students with additional information about positions and possibilities.

The program is now truly global and offers Career Days in London, Colorado Springs, Hong Kong, Sydney, and two locations in metro Baltimore.

Our youth-focused community initiatives share the goal of getting young people out of their typical, day-to-day surroundings and into safe, supportive, and structured learning environments where we hear from them directly. Listening and asking questions helps us support them in new and positive ways.

PEDAL TO PARIS
T. Rowe Price cyclists raised more than £100,000 for the Royal British Legion.

Photos by Matthew Alexander



24

T. Rowe Price associates

350

cyclists from around the world



285

miles over four days

Global Partnerships

Last summer, 24 T. Rowe Price associates from Great Britain, the United States, and Denmark joined 350 other cyclists for the 2016 Pedal to Paris charity ride from London to Paris. In its 21st year, the annual ride benefits the Royal British Legion, which provides lifelong support for the armed forces community, serving men, women, veterans, and their families.

The four-day event covered nearly 285 miles and took the cyclists from London through the English and French countryside, ending at the Arc de Triomphe in Paris.



FEELING A PERSONAL CONNECTION

Chris Alderson, head of International Equity, participated in Pedal to Paris and like many other riders, felt a personal connection to the charity.

“My grandfather and namesake fought in both World Wars and was a doctor in the Second World War when he was captured and later died in a prisoner of war camp,” says Chris. “Cycling through the French countryside was particularly poignant, especially through the region of the Somme where my grandfather fought. As I looked at other riders with slogans on their backs, such as ‘To the Memory of the Fallen and the Future of the Living,’ I kept thinking about the life my grandfather led and what the future will bring for my own children. Pedal to Paris is especially meaningful to me because it benefits the living while honoring the fallen.”



ARC DE TRIOMPHE
A moving ceremony at the Arc de Triomphe in Paris culminates the four-day ride.

**STRATEGIC PARTNERSHIPS
BENEFIT GLOBAL INITIATIVES**

T. Rowe Price also launched a strategic partnership with the United Services Organization (USO) in 2016. The USO serves men and women in the U.S. military and their families—both while these service members are in uniform and as they transition back to their communities following deployment.

“The firm’s monetary sponsorship benefits the USO, but more importantly, it positively impacts veterans transitioning back into the working world from active duty,” says Senior Consultant Melissa Cheek.

Operation Gratitude, a group created to lift the spirits and meet the evolving needs of the military and first-responder communities,

and Liberty Manor, a nonprofit organization that provides transitional housing to discharged veterans, similarly benefited from the support of our Tampa associates. And in Maryland, associates supported veterans through a partnership with The 6th Branch, an organization leveraging the leadership skills of military veterans to undertake challenging community service initiatives in Baltimore City.

“Working with The 6th Branch is a good way to focus our volunteer efforts on a neighborhood in need while working directly with an organization that supports local veterans,” says Senior CSR Consultant Jessica Gappa.

Board of Directors



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Senior Lecturer,
Harvard Business School

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Selected Consolidated Financial Data

(in millions, except per-share data)

| Years ended December 31, | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|----------|----------|----------|----------|----------|
| Net revenues | \$ 3,023 | \$ 3,484 | \$ 3,982 | \$ 4,201 | \$ 4,223 |
| Net operating income ⁽¹⁾ | \$ 1,364 | \$ 1,637 | \$ 1,891 | \$ 1,899 | \$ 1,733 |
| Net income ⁽¹⁾ | \$ 884 | \$ 1,048 | \$ 1,230 | \$ 1,223 | \$ 1,254 |
| Net income attributable to redeemable non-controlling interest ⁽²⁾ | \$ — | \$ — | \$ — | \$ — | \$ 39 |
| Net income attributable to T. Rowe Price Group ⁽¹⁾ | \$ 884 | \$ 1,048 | \$ 1,230 | \$ 1,223 | \$ 1,215 |
| Adjusted net income attributable to T. Rowe Price Group ⁽³⁾ | \$ 840 | \$ 1,009 | \$ 1,161 | \$ 1,160 | \$ 1,149 |
| Per common share information | | | | | |
| Basic earnings | \$ 3.47 | \$ 4.02 | \$ 4.68 | \$ 4.74 | \$ 4.85 |
| Diluted earnings | \$ 3.36 | \$ 3.90 | \$ 4.55 | \$ 4.63 | \$ 4.75 |
| Adjusted diluted earnings ⁽³⁾ | \$ 3.20 | \$ 3.76 | \$ 4.29 | \$ 4.39 | \$ 4.49 |
| Cash dividends declared ⁽⁴⁾ | \$ 2.36 | \$ 1.52 | \$ 1.76 | \$ 4.08 | \$ 2.16 |
| Weighted-average common shares outstanding | | | | | |
| | 253.4 | 258.3 | 259.6 | 254.6 | 245.5 |
| Weighted-average common shares outstanding assuming dilution | | | | | |
| | 261.0 | 266.3 | 267.4 | 260.9 | 250.3 |

⁽¹⁾In 2016, net operating income reflects a non-recurring net charge of \$66.2 million related to the Dell appraisal rights matter. Our 2016 net income and net income attributable to T. Rowe Price Group reflect the after-tax impact of this charge.

⁽²⁾Net income attributable to redeemable non-controlling interest represents the portion of net income of our consolidated sponsored investment portfolios we recognized in our consolidated statement of income that is attributable to the interests held by third-party investors. In 2016, we implemented new consolidation accounting guidance resulting in the consolidation of a larger number of sponsored investment portfolios in which we have provided initial seed capital. See the *Summary of Significant Accounting Policies* in the notes to the consolidated financial statements contained in Part II, Item 8 of this filing for more information related to the impact of this new guidance.

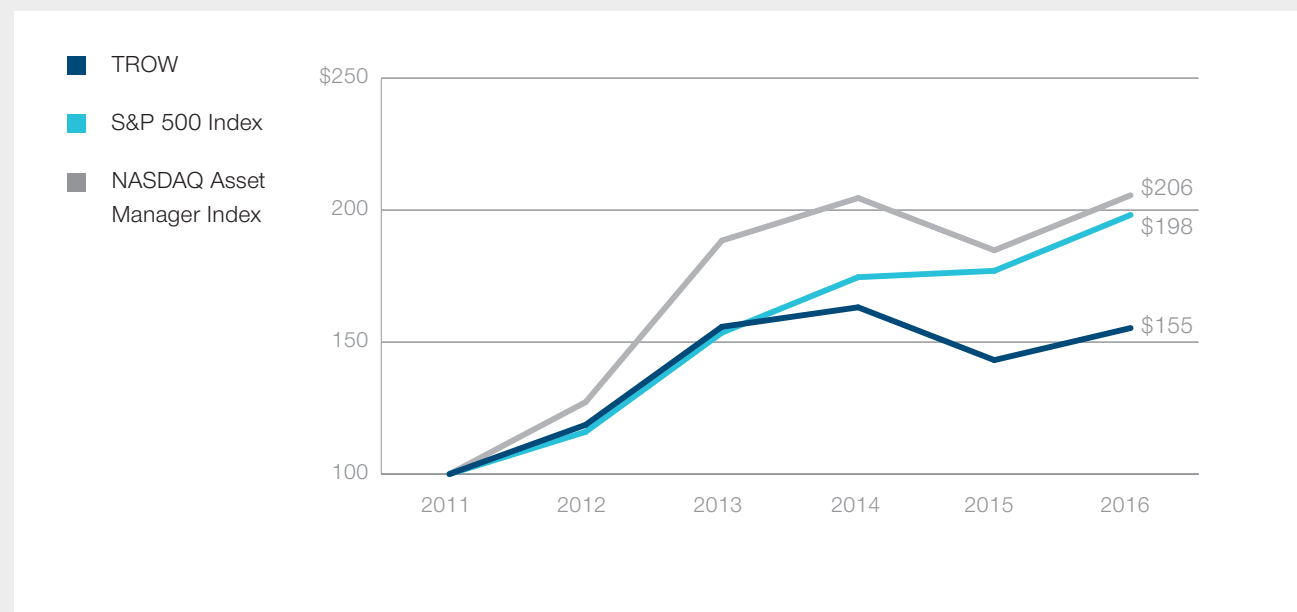
⁽³⁾Represents non-GAAP financial measures that have been established in order to increase transparency for the purpose of evaluating our core business, for comparing current results with prior period results, and to enable more appropriate comparison with industry peers. See Item 7, *Management's Discussion and Analysis - Results of Operations* for the definitions of these measures and the related reconciliation from U.S. GAAP.

⁽⁴⁾Cash dividends declared in 2012 and 2015 include special dividends per share of \$1.00 and \$2.00, respectively, that we paid during those years.

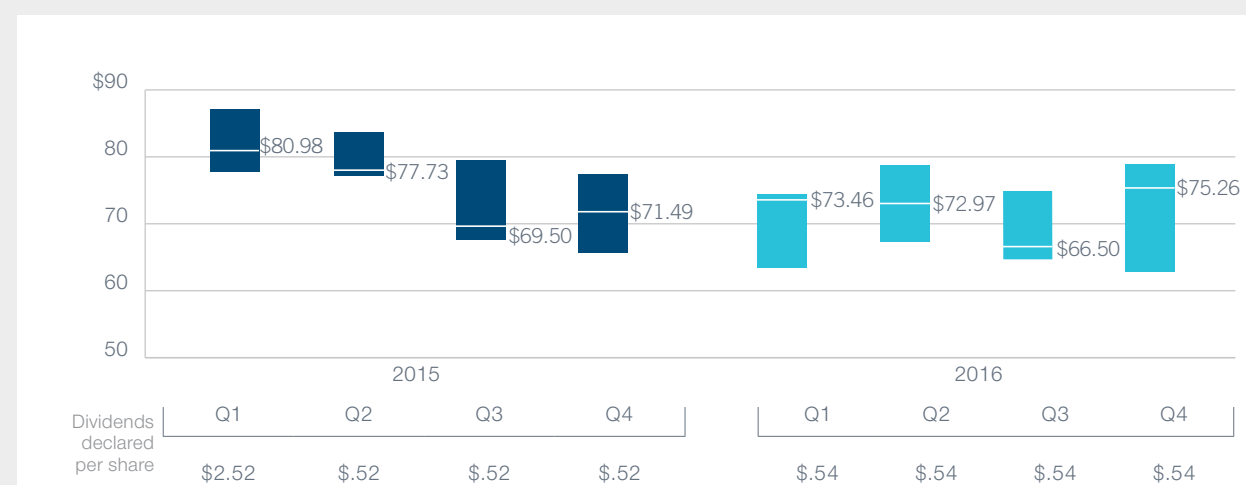
| December 31, | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------------------|----------|----------|----------|----------|----------|
| Balance sheet data (in millions) | | | | | |
| Total assets | \$ 4,203 | \$ 5,033 | \$ 5,644 | \$ 5,107 | \$ 6,225 |
| Redeemable non-controlling interests | \$ — | \$ — | \$ — | \$ — | \$ 687 |
| Stockholders' equity | \$ 3,846 | \$ 4,818 | \$ 5,395 | \$ 4,762 | \$ 5,009 |
| Assets under management (in billions) | | | | | |
| | \$ 576.8 | \$ 692.4 | \$ 746.8 | \$ 763.1 | \$ 810.8 |

Common Stock Performance

Our common stock trades on the NASDAQ Global Select Market under the symbol TROW. This table compares the total cumulative return on our common stock to that of the indexes for the S&P 500 and the NASDAQ Asset Manager Index. For purposes of this presentation, we assume that \$100 was invested in our common stock and each of the indexes on December 31, 2011, and that all subsequent dividends have been reinvested. We have calculated this information based on data provided by NASDAQ OMX Global Indexes and data obtained from Standard & Poor's website (standardandpoors.com).



The following table presents our common stock prices as ranges for each quarter over the past two years. Closing prices at the end of each quarter are indicated.



Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Our revenues and net income are derived primarily from investment advisory services provided to individual and institutional investors in our sponsored U.S. mutual funds and other investment portfolios. The other investment portfolios include separately managed accounts, subadvised funds, and other sponsored investment portfolios, including collective investment trusts, target date retirement trusts, open-ended investment products offered to investors outside the U.S., and portfolios offered through variable annuity life insurance plans in the U.S.

We manage a broad range of U.S., international and global stock, bond, and money market mutual funds and other investment portfolios that meet the varied needs and objectives of individual and institutional investors. Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management affect our revenues and results of operations. We incur significant expenditures to attract new investment advisory clients and additional investments from our existing clients. These efforts involve costs that precede any future revenues that we recognize from an increase to our assets under management.

We remain debt-free with ample liquidity and resources that allow us to take advantage of attractive growth opportunities; invest in key capabilities, including investment professionals, technologies, and new product offerings; and, most importantly, provide our clients with strong investment management expertise and service both now and in the future. We expect to continue our investment in long-term initiatives to sustain and deepen our investment talent, add investment capabilities both in terms of new strategies and new investment vehicles, expand capabilities through enhanced technology, and broaden our distribution reach globally.

We expect to increase our pace of spending on a series of key strategic priorities to address evolving client needs and to grow and further diversify our business. Based on these planned initiatives, we currently expect that our planned operating expenses, excluding the net charge related to the Dell appraisal rights matter, will grow in the high-single-digit range in 2017 versus 2016. We could elect to moderate the pace of spending on our planned initiatives should markets decline significantly. In addition, other events not currently planned or expected could impact our expense levels.

BACKGROUND

U.S. stocks rose strongly in 2016, with major indexes finishing the year near record highs. Small-cap stocks substantially outperformed large-caps, and it was the eighth consecutive year for a positive S&P 500 Index total return. The year began with fears of a global economic slowdown, which caused a short but sharp correction in equities and commodities. U.S. shares bottomed in mid-February and worked their way higher through late June, as commodity prices rebounded and the U.S. dollar weakened due to diminishing expectations for Federal Reserve interest rate increases in 2016. In late June, world equity markets experienced a brief but intense sell-off as the UK unexpectedly voted in favor of leaving the European Union. However, stocks resumed rising amid expectations that global central banks would provide additional monetary stimulus. In the months prior to the November U.S. elections, the U.S. market's advance was hindered by political uncertainty, as well as uncertainty about the timing of a possible interest rate increase, as Fed officials started cautioning that the case for raising short-term rates had "strengthened." Stocks surged following the U.S. election results. However, the rally lost some steam in December, as the Fed raised short-term rates in mid-December and projected more-than-expected increases in 2017.

Developed non-U.S. equity markets significantly underperformed U.S. shares for the year, as returns to U.S. investors were hurt by a stronger dollar versus some major currencies. In dollar terms, Asian markets advanced for the year, though Japan, Hong Kong, and Singapore gained less than 3%. European equity markets were widely mixed, with Italy—one of the worst-performing markets—dropping more than 9%, due in part to its troubled banking sector.

Emerging equity markets outperformed developed non-U.S. markets. Brazil led the Latin America region with a nearly 67% gain, helped by rebounding commodity prices and by a new president pursuing reforms. In emerging Europe, Russian shares soared amid firming oil prices, a stronger ruble, and hopes for better relations with the U.S. Emerging Asian markets were widely mixed.

Results of several major equity market indexes for 2016 are as follows:

| Index | |
|---|-------|
| S&P 500 Index | 12.0% |
| NASDAQ Composite Index (excluding dividends) | 7.5% |
| Russell 2000 Index | 21.3% |
| MSCI EAFE (Europe, Australasia, and Far East) Index | 1.5% |
| MSCI Emerging Markets Index | 11.6% |

Global bond returns were mostly positive in 2016. In the U.S., intermediate- and long-term Treasury yields declined in the first half of the year, then rebounded in the second half and finished the year above their year-end 2015 levels. The 10-year Treasury note yield decreased from 2.3% at the end of 2015 to less than 1.4% around midyear, then it rose to around 2.5% by the end of 2016. In the investment-grade universe, corporate bonds were among the best performers. Longer-term Treasuries generated modest returns. Municipal securities were flat for the year, as they surrendered earlier gains during the fourth quarter amid rising interest rates and cash outflows. High yield bonds strongly outperformed, helped by their lower interest rate sensitivity, investors' demand for securities with attractive yields, and a rebound in oil prices.

Bonds in developed non-U.S. markets produced modest positive returns in dollar terms, as significant first-half gains driven by U.S. currency weakness and falling sovereign debt yields were largely offset by a reversal of these trends in the latter half of the year. Bonds in emerging markets produced solid gains, as first-half returns driven by dollar weakness and investors' search for attractive yields were only partially eroded by a stronger U.S. dollar in the second half.

Results of several major bond market indexes for 2016 are as follows:

| Index | |
|---|-------|
| Bloomberg Barclays U.S. Aggregate Bond Index | 2.7% |
| JPMorgan Global High Yield Index | 18.3% |
| Bloomberg Barclays Municipal Bond Index | .3% |
| Bloomberg Barclays Global Aggregate Ex-U.S. Dollar Bond Index | 1.5% |
| JPMorgan Emerging Markets Bond Index Plus | 9.6% |

ASSETS UNDER MANAGEMENT

Our assets under management ended 2016 at \$810.8 billion, an increase of \$47.7 billion from the end of 2015. During 2016, market appreciation and income, net of distributions not reinvested, of \$50.5 billion was offset in part by net cash outflows of \$2.8 billion. Investment advisory clients outside the U.S. account for about 5% of our assets under management at December 31, 2016.

Assets Under Management by Investment Vehicle

| (in billions) | December 31, | 2015 | 2016 |
|--------------------------------------|--------------|-----------------|-----------------|
| Sponsored U.S. mutual funds | | \$ 487.1 | \$ 514.2 |
| Other investment portfolios | | 276.0 | 296.6 |
| Total assets under management | | \$ 763.1 | \$ 810.8 |

Assets Under Management by Asset Class

| (in billions) | December 31, | 2015 | 2016 |
|--------------------------------------|--------------|-----------------|-----------------|
| Equity | | \$ 439.4 | \$ 450.6 |
| Fixed income | | 110.4 | 121.2 |
| Asset allocation | | 213.3 | 239.0 |
| Total assets under management | | \$ 763.1 | \$ 810.8 |

Our target date retirement portfolios, which invest in a broadly diversified portfolio of other T. Rowe Price funds or T. Rowe Price collective investment trusts and automatically rebalance to maintain their specific asset allocation weightings, continue to be a significant part of our assets under management. Assets under management at December 31, 2016, in these target date portfolios totaled \$189.2 billion, including \$150.9 billion in target date retirement funds and \$38.3 billion in target date retirement trusts.

The following table presents the component changes in assets under management for 2014, 2015, and 2016.

| | Sponsored U.S. mutual funds | Other investment portfolios | Total |
|--|-----------------------------------|-----------------------------------|-----------------|
| Assets under management at December 31, 2013 | \$ 435.3 | \$ 257.1 | \$ 692.4 |
| Net cash flows before client transfers | 17.1 | (13.4) | 3.7 |
| Client transfers from mutual funds to other portfolios | (5.3) | 5.3 | — |
| Net cash flows after client transfers | 11.8 | (8.1) | 3.7 |
| Net market appreciation and income | 32.2 | 20.2 | 52.4 |
| Distributions not reinvested | (1.7) | — | (1.7) |
| Change during the period | 42.3 | 12.1 | 54.4 |
| Assets under management at December 31, 2014 | \$ 477.6 | \$ 269.2 | \$ 746.8 |
| Net cash flows before client transfers | 7.9 | (6.3) | 1.6 |
| Client transfers from mutual funds to other portfolios | (6.5) | 6.5 | — |
| Net cash flows after client transfers | 1.4 | .2 | 1.6 |
| Net market appreciation and income | 9.6 | 6.7 | 16.3 |
| Distributions not reinvested | (1.5) | (.1) | (1.6) |
| Change during the period | 9.5 | 6.8 | 16.3 |
| Assets under management at December 31, 2015 | \$ 487.1 | \$ 276.0 | \$ 763.1 |
| Net cash flows before client transfers | .3 | (3.1) | (2.8) |
| Client transfers from mutual funds to other portfolios | (4.9) | 4.9 | — |
| Net cash flows after client transfers | (4.6) | 1.8 | (2.8) |
| Net market appreciation and income | 32.6 | 18.8 | 51.4 |
| Distributions not reinvested | (.9) | — | (.9) |
| Change during the period | 27.1 | 20.6 | 47.7 |
| Assets under management at December 31, 2016 | \$ 514.2 | \$ 296.6 | \$ 810.8 |

In 2014, the majority of the assets transferred by clients from our sponsored mutual funds to our other investment portfolios disclosed in the table above were moved from our target date retirement funds to our collective investment trusts and target date retirement trusts. In 2015 and 2016, assets were transferred from both target date retirement funds and other mutual funds to our collective investment trusts, target date retirement trusts, and separate accounts.

The net cash flows after client transfers (in billions), by investment vehicle and asset class, over the last three years, are as follows:

| | Year ended December 31, | | |
|---|-------------------------|----------------|-----------------|
| | 2014 | 2015 | 2016 |
| Sponsored U.S. mutual funds | | | |
| Stock and blended asset funds | \$ 3.7 | \$ 1.5 | \$ (9.9) |
| Bond funds | 8.3 | .3 | 4.7 |
| Money market funds | (.2) | (.4) | .6 |
| | \$ 11.8 | \$ 1.4 | \$ (4.6) |
| Other investment portfolios | | | |
| Stock and blended assets | (6.4) | (3.8) | (4.9) |
| Fixed income, money market, and stable value | (1.7) | 4.0 | 6.7 |
| | (8.1) | .2 | 1.8 |
| Total net cash flows after client transfers | \$ 3.7 | \$ 1.6 | \$ (2.8) |
| Net cash flows after client transfers originating in target date retirement portfolios | \$ 17.7 | \$ 16.2 | \$ 8.1 |

The net cash inflows in our sponsored U.S. mutual funds over the last three years were sourced primarily from third-party financial intermediaries across various mandates as detailed below.

In 2014, the net outflows from our other investment portfolios were primarily from a few institutional and subadvisory clients who redeemed significant amounts from a small number of equity and fixed income strategies. In 2015, the net inflows in our other investment portfolios resulted primarily from the client transfers received from the mutual funds. The net outflows prior to the transfers into these portfolios were largely concentrated among a small number of institutional clients who redeemed primarily from large-cap U.S. equity strategies. In 2016, our net cash outflows are largely attributable to institutional and intermediary clients reallocating to passive investments and the impact of our closed investment strategies. The general trend to passive also impacted the net cash flows originating in our target date retirement portfolios. This trend has been persistent and has accelerated in recent years. However, over the long term we expect well-executed active management to play an important role for investors, and we are reinvesting in our company with the objective of delivering strong investment performance and excellent client service like we have historically achieved.

INVESTMENT PERFORMANCE

Strong investment performance and brand awareness is a key driver to attracting and retaining assets—and to our long-term success. Although investment performance relative to our peers has weakened in 2016, it has been strong over the longer term. The percentage of our Price Funds across their share classes that outperformed their comparable Lipper averages on a total return basis and percentage in top Lipper quartile for the 1-, 3-, 5-, and 10-years ended December 31, 2016, were:

| | 1 year | 3 years | 5 years | 10 years |
|---|------------|------------|------------|------------|
| US equity | 51% | 93% | 100% | 94% |
| International equity | 76% | 81% | 77% | 90% |
| Fixed income | 46% | 63% | 46% | 68% |
| Asset allocation | 49% | 97% | 95% | 94% |
| All Price Funds (across their share classes) | 53% | 84% | 80% | 86% |
| Price Funds in top Lipper quartile | 26% | 39% | 54% | 55% |

In addition, nearly 86% of our Price Funds' assets under management ended December 31, 2016, with an overall rating of four or five stars from Morningstar. The performance of our institutional strategies against their benchmarks weakened in 2016 but remains very competitive over longer time periods.

RESULTS OF OPERATIONS

The table below presents financial results on a U.S. GAAP basis, as well as a non-GAAP basis to adjust for the non-recurring charge related to the Dell appraisal rights matter, the impact of the consolidated sponsored investment portfolios, and other non-operating income. We believe the non-GAAP financial measures below provide relevant and meaningful information to investors about our core operating results.

| (in millions, except per-share data) | Year ended December 31, | | 2015 | 2016 | Dollar change | Percentage change |
|--|-------------------------|---------|------|---------|---------------|-------------------|
| U.S. GAAP Basis | | | | | | |
| Investment advisory fees | \$ | 3,687.3 | \$ | 3,728.7 | \$ 41.4 | 1.1% |
| Net revenues | \$ | 4,200.6 | \$ | 4,222.9 | \$ 22.3 | .5% |
| Operating expenses | \$ | 2,301.7 | \$ | 2,489.5 | \$ 187.8 | 8.2% |
| Net operating income | \$ | 1,898.9 | \$ | 1,733.4 | \$ (165.5) | (8.7)% |
| Non-operating income ⁽¹⁾ | \$ | 103.5 | \$ | 227.1 | \$ 123.6 | nm |
| Net income attributable to T. Rowe Price Group | \$ | 1,223.0 | \$ | 1,215.0 | \$ (8.0) | (.7)% |
| Diluted earnings per common share | \$ | 4.63 | \$ | 4.75 | \$ 0.12 | 2.6% |
| Weighted average common shares outstanding assuming dilution | | 260.9 | | 250.3 | (10.6) | (4.1)% |
| Adjusted⁽²⁾ | | | | | | |
| Operating expenses | \$ | 2,301.7 | \$ | 2,416.8 | \$ 115.1 | 5.0% |
| Net income attributable to T. Rowe Price Group | \$ | 1,160.3 | \$ | 1,148.9 | \$ (11.4) | (1.0)% |
| Diluted earnings per common share | \$ | 4.39 | \$ | 4.49 | 0.10 | 2.3% |
| Assets under management (in billions) | | | | | | |
| Average assets under management | \$ | 767.9 | \$ | 778.2 | \$ 10.3 | 1.3% |
| Ending assets under management | \$ | 763.1 | \$ | 810.8 | \$ 47.7 | 6.3% |

⁽¹⁾Non-operating income varies from year to year due to a number of factors; accordingly, the percentage change in non-operating income is not believed to be meaningful.

⁽²⁾See the reconciliation to the comparable U.S. GAAP measures at the end of the Results of Operations sections of Part II, *Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations*.

As detailed in the table above, the percentage increase in investment advisory revenues in 2016 was in line with the increase in our average assets under management. We waived \$10.5 million in money market-related fees (including advisory fees and fund expenses) in 2016, a decrease of \$37.1 million from the \$47.6 million waived in the 2015 period. The fee waivers in 2016 represent less than .5% of total investment advisory revenues earned during the same period. These fees were waived from certain of our money market mutual funds and trusts, which have combined net assets of \$15.7 billion at December 31, 2016. We expect money market fee waivers, if any, will be insignificant in 2017. The annual fee rate earned on our assets under management was 47.9 basis points in 2016, virtually unchanged from the 48.0 basis points earned in 2015. The impact on our effective fee rate from the reduction in money market waivers in 2016 was offset by effective fee rate reductions in certain of our sponsored U.S. mutual funds.

Our operating expenses include a non-recurring charge, net of insurance recovery, of \$66.2 million, or \$.15 per share after tax related to the Dell appraisal rights matter. In 2016, we paid our clients \$166.2 million to compensate them for the denial of their appraisal rights in connection with the 2013 leveraged buyout of Dell. We made claims with our insurance carriers and, on December 30, 2016, entered into an agreement with our primary insurance carrier to recover \$100 million from the claim. The insurance proceeds were recognized as an offset to the related \$166.2 million charge recognized in the second quarter of 2016. Remaining insurance claims filed with respect to this matter that could result in an additional recovery of up to \$50 million are still pending.

Our operating margin in 2016 was 41.0% compared to 45.2% in the 2015 period. Without the impact of the non-recurring charge relating to the Dell appraisal rights matter, our operating margin in 2016 would have been 42.6%. The additional decline in our 2016 operating margin results primarily from the investments we have been making to broaden and deepen our investment management, distribution, and service capabilities around the world.

Our 2016 results were significantly impacted by the adoption of new accounting guidance related to consolidation and stock-based compensation. The impacts of implementing this new guidance is discussed in more detail in the *Summary of Significant Accounting Policies* section of our consolidated financial statements contained in Item 8 of this filing.

The impact (in millions) the consolidated sponsored investment portfolios have on the individual lines of our 2016 consolidated statement of income is as follows:

| | | |
|--|----|--------|
| Operating expenses reflected in net operating income | \$ | (13.0) |
| Net investment income reflected in non-operating income | | 121.1 |
| Impact on income before taxes | \$ | 108.1 |
| Net income attributable to the firm's interest in the consolidated sponsored investment portfolios | \$ | 69.1 |
| Net income attributable to redeemable non-controlling interests (unrelated third-party investors) | | 39.0 |
| | \$ | 108.1 |

Net revenues

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the U.S. increased 1.4%, or \$37.5 million, to \$2.7 billion. Average mutual fund assets in 2016 were \$495.5 billion, an increase of .4% from the average for the comparable 2015 period. The increase in advisory revenues was due in part to the reduction in money market fee waivers realized in 2016 compared with 2015.

Investment advisory revenues earned on the other investment portfolios for 2016 were \$1,023.3 million, an increase of \$3.9 million, or .4%, from the \$1,019.4 million earned in 2015. Average assets in these portfolios were \$282.7 billion during 2016, up 3.1% from the comparable 2015 period. In 2016, our advisory revenues are presented net of \$7.0 million related to the elimination of management fees earned on the net assets of certain of our consolidated sponsored investment portfolios. We eliminated these advisory fees in preparing our consolidated financial statements.

Administrative fee revenues decreased \$9.3 million to \$352.5 million in 2016. The decrease is primarily attributable to transfer agent servicing activities provided to the mutual funds and their investors, as well as the shift of fund accounting and portfolio recordkeeping operations to BNY Mellon that, prior to August 2015, we provided to our sponsored U.S. mutual funds. Changes in administrative fee revenues are generally offset by similar changes in related operating expenses that are incurred to provide services to the funds and their investors.

Distribution and servicing fee revenues earned from 12b-1 plans of the Advisor, R, and Variable Annuity II Class shares of our sponsored portfolios were \$141.7 million in 2016, a decrease of \$9.8 million from the comparable 2015 period on lower average assets under management in these share classes. The 12b-1 fees earned are offset entirely by the costs paid to third-party intermediaries who source these assets. These costs are reported as distribution and servicing costs in the consolidated income statements.

Operating expenses

Compensation and related costs was \$1,494.0 million in 2016, an increase of \$50.4 million, or 3.5%, compared to the 2015 period. The largest part of the increase is attributable to a \$56.7 million increase in salaries and related benefits, which resulted from a modest increase in salaries at the beginning of 2016 combined with a 3.2% increase in average headcount from 2015. Noncash stock-based compensation expense and annual variable compensation were up \$12.6 million and \$4.9 million, respectively. These increases were offset by a higher level of technology labor capitalized in 2016 compared with 2015 and a reduction in temporary labor cost as the 2016 projects used more professional service resources. The overall increase in compensation and related costs and our average staff size from 2015 were muted by lower compensation costs resulting from shifting 210 associates in August 2015 to BNY Mellon and for the ongoing transition support we provide to them. However, these lower compensation costs are generally offset by increases in costs paid to BNY Mellon to provide these administrative services and other transition-related activities, which are reflected in other operating expenses.

Advertising and promotion costs were \$79.9 million in 2016 compared with \$79.7 million in 2015. We currently expect advertising and promotion costs for 2017 to be up to 10% higher than the 2016 year as we execute on a number of strategic initiatives.

Occupancy and facility costs, together with depreciation expense, increased \$20.7 million, or 7.3%, compared to 2015. The increase is primarily attributable to the added costs to update and enhance technology capabilities, including related maintenance programs.

Other operating expenses were \$401.5 million in 2016, an increase of \$60.1 million from 2015. About half of this increase is attributable to costs being paid to BNY Mellon since August 2015 for the performance of certain administrative services, as mentioned above. The increase also includes \$6.5 million in operating expenses, net of investment advisory fees earned by us, of those sponsored investment portfolios that we began consolidating at the beginning of 2016. The remaining balance of the change is due to increased business demands and our continued investment in capabilities.

Non-operating income

Net non-operating investment activity during 2016 resulted in income of \$227.1 million compared with \$103.5 million 2015. The following table details the components of non-operating income (in millions) during the 2015 and 2016.

| Year ended December 31, | 2015 | 2016 | Dollar change |
|--|-----------------|-----------------|-----------------|
| Net gains realized on dispositions of available-for-sale investments | \$ 56.5 | \$ 53.0 | \$ (3.5) |
| Other-than-temporary impairments of available-for-sale investments | (4.8) | — | 4.8 |
| Net gains (losses) recognized on deconsolidation of sponsored funds | (5.8) | 2.2 | 8.0 |
| Ordinary and capital gain dividends from sponsored fund investments | 39.7 | 16.1 | (23.6) |
| Investment gains (losses) on sponsored equity method and trading investments | (2.6) | 20.8 | 23.4 |
| Net investment income on sponsored fund investments not consolidated | 83.0 | 92.1 | 9.1 |
| Other investment income | 22.3 | 15.9 | (6.4) |
| Total investment income on investments | 105.3 | 108.0 | 2.7 |
| Net investment income on consolidated sponsored investment portfolios | 1.5 | 121.1 | 119.6 |
| Other non-operating expense | (3.3) | (2.0) | 1.3 |
| Non-operating income | \$ 103.5 | \$ 227.1 | \$ 123.6 |

The increase in investment gains on sponsored equity method and trading investments is driven by an increase in the number of sponsored funds accounted for as equity method investments as well as market gains. The investment income on consolidated sponsored investment portfolios has increased in 2016 as the number of portfolios we consolidate, as discussed earlier in this section, increased significantly upon the adoption of the new consolidation accounting guidance. See the *Summary of Significant Accounting Policies* in the consolidated financial statements contained in Part II, Item 8 of this filing for more information related to the impact of the guidance.

Provision for income taxes

Our effective tax rate for 2016 was 36.0% compared to 38.9% in 2015. The decrease in the effective tax rate is related in part to the increase in net income attributable to redeemable non-controlling interest related to our consolidated sponsored investment portfolios as we do not recognize taxes associated with these earnings. Additionally, the estimated effective tax rate has declined as a result of adopting the new stock-based compensation accounting guidance as discussed in the *Summary of Significant Accounting Policies* in the consolidated financial statements contained in Part II, Item 8 of this filing. Under the new guidance, tax benefits and shortfalls on exercised options and vested restricted stock relative to the stock-based compensation expense recognized are included in the provision for income taxes rather than as additional paid in capital on the consolidated balance sheet. Our effective income tax rate also reflects the relative contribution of pretax income generated by our foreign subsidiaries that are subject to tax rates lower than our U.S. rates. Changes in the relative contribution of pretax income from U.S. and foreign sources or changes in tax rates in relevant jurisdictions may affect our effective income tax rate and overall net income in the future. We currently estimate that our effective tax rate for 2017 to be 36.5%. Our 2017 estimate assumes the tax benefits related to stock-based compensation will be similar to those realized in 2016.

2015 versus 2014

| (in millions, except per-share data) | Year ended December 31, | 2014 | 2015 | Dollar change | Percentage change |
|--------------------------------------|-------------------------|------------|------------|---------------|-------------------|
| Investment advisory fees | | \$ 3,464.5 | \$ 3,687.3 | \$ 222.8 | 6.4% |
| Net revenues | | \$ 3,982.1 | \$ 4,200.6 | \$ 218.5 | 5.5% |
| Operating expenses | | \$ 2,091.2 | \$ 2,301.7 | \$ 210.5 | 10.1% |
| Net operating income | | \$ 1,890.9 | \$ 1,898.9 | \$ 8.0 | .4% |
| Non-operating investment income | | \$ 112.2 | \$ 103.5 | \$ (8.7) | (7.8)% |
| Net income | | \$ 1,229.6 | \$ 1,223.0 | \$ (6.6) | (.5)% |
| Diluted earnings per share | | \$ 4.55 | \$ 4.63 | \$ 0.08 | 1.8% |

Investment advisory revenues earned in 2015 increased over 2014 as our average assets under management increased \$43.2 billion, or 6.0%, to \$767.9 billion. The average annualized fee rate earned on our assets under management was 48.0 basis points in 2015, up from the 47.8 basis points earned in 2014, as money market fee waivers declined and equity valuations, which on average carry a higher fee rate, increased in 2015. We waived \$47.6 million in money market-related fees in 2015, including advisory fees and fund expenses, a decrease of \$10.8 million from the \$58.4 million waived in 2014. The fee waivers in 2015 represent 1.3% of total investment advisory revenues earned during the same period. Fees were waived from all our money market mutual funds and trusts, which have combined net assets of \$15.7 billion at December 31, 2015.

Our operating margin in 2015 was 45.2% compared to 47.5% in the 2014 period. The decline is a result of the investments we have been making to broaden and deepen our investment management, distribution, and service capabilities around the world despite the impact of market volatility on our net revenues.

Net revenues

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the U.S. increased 7.3%, or \$182.1 million, to nearly \$2.7 billion, on higher average mutual fund assets. Average mutual fund assets in 2015 were \$493.6 billion, an increase of 7.1% from the average for the comparable 2014 period.

Investment advisory revenues earned on the other investment portfolios in 2015 were \$1.0 billion, an increase of \$40.7 million, or 4.2%, from the \$978.7 million earned in the comparable 2014 period. Average assets in these portfolios were \$274.3 billion in 2015, up 4.0% from the comparable 2014 period.

Administrative fee revenues decreased \$12.2 million to \$361.8 million in 2015. The decrease includes the reduction in certain administrative service fee rates paid by certain fund shareholders at the beginning of 2015. Additionally, fees earned from the mutual funds for fund accounting has declined in 2015 compared to 2014, as such services began to be performed by BNY Mellon in August 2015. The mutual funds have contracted directly with BNY Mellon to provide such services. Changes in administrative fee revenues are generally offset by similar changes in related operating expenses that are incurred to provide services to the funds and their investors.

Distribution and servicing fee revenues earned from 12b-1 plans of the Advisor Class, R Class, and Variable Annuity II Class shares of our sponsored portfolios were \$151.5 million in 2015, an increase of \$7.9 million from 2014 on greater average assets under management in these share classes. The 12b-1 fees earned are offset entirely by the costs paid to third-party intermediaries who source these assets. These costs are reported as distribution and servicing costs in the consolidated income statements.

Operating expenses

Compensation and related costs were \$1.4 billion in 2015, an increase of \$114.0 million, or 8.6%, compared to 2014. The largest part of the increase is attributable to a \$52.6 million increase in salaries and related benefits and a \$43.0 million increase in our annual variable compensation program. Our average staff size in 2015 increased 3.7% over 2014, and we employed 5,999 associates at December 31, 2015. Higher noncash stock-based compensation expense and temporary staff expense account for the remainder of the increase in compensation and related costs in the 2015 period. The increase in compensation and related costs and our average staff size were muted by the lower compensation costs resulting from shifting 210 associates and providing ongoing transition support to BNY Mellon, with whom we contracted to provide fund accounting and recordkeeping operations. However, these lower compensation costs are offset by increases in costs paid to BNY Mellon to provide these administrative services, which are reflected in other operating expenses.

Advertising and promotion costs were \$79.7 million in 2015, an increase of \$3.7 million from 2014. The higher cost is primarily attributable to the creation and launch of a new advertising campaign and increased participation in promotional activities as we broaden our distribution reach.

Occupancy and facility costs, together with depreciation expense, increased \$29.9 million, or 11.7%, compared to 2014. The increase is primarily attributable to the added costs to update and enhance technology capabilities, including related maintenance programs.

Other operating expenses were \$341.4 million in 2015, an increase of \$55.0 million from 2014. About a third of the increase is attributable to costs being paid to BNY Mellon since August 2015 for the performance of certain administrative services. The balance of the change is due to increased business demands and our continued investment in capabilities. These costs include information and third-party service costs, costs related to our defined contribution recordkeeping business, travel-related costs, and other general and administrative costs.

Non-operating investment income

Net non-operating investment activity during 2015 resulted in income of \$103.5 million, a decrease of \$8.7 million from 2014. Net losses recognized on our sponsored fund investments of \$12.3 million were offset in part by other investment income of \$3.6 million. The following table details the components of non-operating investment income (in millions) during 2014 and 2015.

| Year ended December 31, | 2014 | 2015 | Dollar change |
|--|-----------------|-----------------|-----------------|
| Net gains realized on sponsored fund dispositions | \$ 49.3 | \$ 56.5 | \$ 7.2 |
| Ordinary and capital gain dividends | 50.2 | 43.0 | (7.2) |
| Other-than-temporary impairment | — | (4.8) | (4.8) |
| Earnings (losses) on equity method fund holdings | 1.1 | (2.4) | (3.5) |
| Net losses recognized on trading securities | (3.8) | (2.0) | 1.8 |
| Net loss recognized on deconsolidation of a sponsored fund | — | (5.8) | (5.8) |
| Net investment gains recognized on sponsored funds | 96.8 | 84.5 | (12.3) |
| Other investment income | 15.4 | 19.0 | 3.6 |
| Non-operating investment income | \$ 112.2 | \$ 103.5 | \$ (8.7) |

The net loss recognized on deconsolidation represents the reclassification of a foreign currency loss that was accumulated in other comprehensive income from the date we made our initial seed capital investment in an Australian dollar-denominated fund. Since the deconsolidation, we are accounting for the investment under the equity method of accounting.

Provision for income taxes

Our effective tax rate was 38.9% in 2015 compared to 38.6% in 2014. Our effective income tax rate reflects the relative contribution of pretax income generated by our foreign subsidiaries that are subject to tax rates lower than our U.S. rates.

Non-GAAP information and reconciliation

We believe the non-GAAP financial measures on the following page provide relevant and meaningful information to investors about our core operating results. These measures have been established in order to increase transparency for the purpose of evaluating our core business, for comparing current results with prior period results, and to enable more appropriate comparison with industry peers. However, non-GAAP financial measures should not be considered as a substitute for financial measures calculated in accordance with U.S. GAAP and may be calculated differently by other companies. The following schedule reconciles (in millions, except for per-share amounts) U.S. GAAP financial measures to non-GAAP measures for each of the last five years.

| (in millions, except for per-share amounts) | Year ended December 31, | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating expenses, GAAP basis | | \$ 1,658.2 | \$ 1,846.8 | \$ 2,091.2 | \$ 2,301.7 | \$ 2,489.5 |
| Non-GAAP Adjustments: | | | | | | |
| Expenses of consolidated sponsored investment portfolios, net of elimination of our related management fee ⁽¹⁾ | | — | — | — | — | (6.5) |
| Non-recurring charge related to Dell appraisal rights matter ⁽³⁾ | | — | — | — | — | (66.2) |
| Adjusted operating expenses | | \$ 1,658.2 | \$ 1,846.8 | \$ 2,091.2 | \$ 2,301.7 | \$ 2,416.8 |
| Net income attributable to T. Rowe Price Group, Inc., GAAP basis | | \$ 883.6 | \$ 1,047.7 | \$ 1,229.6 | \$ 1,223.0 | \$ 1,215.0 |
| Non-GAAP Adjustments: | | | | | | |
| Net income of consolidated sponsored investment portfolios, net of redeemable non-controlling interests ⁽¹⁾ | | (7.1) | (4.5) | — | (1.5) | (69.1) |
| Non-operating income, excluding impact of consolidated sponsored investment portfolios ⁽²⁾ | | (63.7) | (58.5) | (112.2) | (102.0) | (106.0) |
| Non-recurring charge related to Dell appraisal rights matter ⁽³⁾ | | — | — | — | — | 66.2 |
| Income tax impacts of non-GAAP adjustments ⁽⁴⁾ | | 27.5 | 24.5 | 43.9 | 40.8 | 42.8 |
| Adjusted net income attributable to T. Rowe Price Group, Inc. | | \$ 840.3 | \$ 1,009.2 | \$ 1,161.3 | \$ 1,160.3 | \$ 1,148.9 |
| Diluted earnings per common share, GAAP basis | | \$ 3.36 | \$ 3.90 | \$ 4.55 | \$ 4.63 | \$ 4.75 |
| Non-GAAP Adjustments: | | | | | | |
| Consolidated sponsored investment portfolios ⁽¹⁾ | | (.02) | (.01) | — | (.01) | (.16) |
| Non-operating income, excluding impact of consolidated sponsored investment portfolios ⁽²⁾ | | (.14) | (.13) | (.26) | (.23) | (.25) |
| Non-recurring charge related to Dell appraisal rights matter ⁽³⁾ | | — | — | — | — | .15 |
| Adjusted diluted earnings per common share⁽⁵⁾ | | \$ 3.20 | \$ 3.76 | \$ 4.29 | \$ 4.39 | \$ 4.49 |

⁽¹⁾We implemented new consolidation accounting guidance on January 1, 2016, that resulted in a larger number of our sponsored investment portfolios, that we provide seed capital to at inception, to be consolidated in our financial statements as we were deemed to have a controlling financial interest. We now recognize investment gains and losses on a larger number of the investments in sponsored portfolios in our consolidated statement of income compared to our consolidated statement of comprehensive income in 2015. The non-GAAP adjustments add back the management fees we earn from the consolidated sponsored investment portfolios and remove the investment income and operating expenses of these portfolios that have been included in our U.S. GAAP consolidated statements of income. We believe the consolidated sponsored investment portfolios may impact the reader's ability to understand our core operating results. The following table details the amounts and consolidated statement of income line items in which the amounts were recognized:

| Year ended December 31, | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---------------|---------------|-------------|---------------|----------------|
| Net investment income of consolidated sponsored portfolios | \$ 7.1 | \$ 4.5 | \$ — | \$ 1.5 | \$ 121.1 |
| Operating expenses of consolidated sponsored portfolios | — | — | — | — | (13.0) |
| Net income of consolidated sponsored portfolios | 7.1 | 4.5 | — | 1.5 | 108.1 |
| Less: net income attributable to redeemable non-controlling interests | — | — | — | — | 39.0 |
| T. Rowe Price's portion of net income | \$ 7.1 | \$ 4.5 | \$ — | \$ 1.5 | \$ 69.1 |

⁽²⁾This non-GAAP adjustment removes the non-operating income that remains after backing out the portion related to the consolidated sponsored investment portfolios. We believe excluding non-operating income helps the reader's ability to understand the firm's core operating results and increases comparability to prior years. Additionally, we do not emphasize the impact of non-operating income when managing our firm and evaluating our performance.

| Year ended December 31, | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|----------------|----------------|-----------------|-----------------|-----------------|
| Total non-operating income | \$ 70.8 | \$ 63.0 | \$ 112.2 | \$ 103.5 | \$ 227.1 |
| Less: net investment income of consolidated sponsored portfolios | 7.1 | 4.5 | — | 1.5 | 121.1 |
| Total other non-operating income | \$ 63.7 | \$ 58.5 | \$ 112.2 | \$ 102.0 | \$ 106.0 |

⁽³⁾As previously disclosed, we made the decision in 2016 to compensate certain clients in regard to the Dell appraisal rights matter. We also recognized an offset to this charge for a related insurance recovery. We believe it is useful to readers of our consolidated statement of income to adjust for this non-recurring charge, net of the insurance recovery, in arriving at adjusted operating expenses, net income attributable to T. Rowe Price Group, Inc., and diluted earnings per share, as this will aid with comparability to prior periods and analyzing our core business results.

⁽⁴⁾These were calculated using the effective tax rate applicable to the related items.

⁽⁵⁾This non-GAAP measure was calculated by applying the two-class method to adjusted net income attributable to T. Rowe Price Group, Inc., divided by the weighted-average common shares outstanding assuming dilution.

CAPITAL RESOURCES AND LIQUIDITY

During 2016, stockholders' equity increased from \$4.8 billion to \$5.0 billion. Tangible book value increased to \$4.3 billion at December 31, 2016. We paid \$2.16 per share in regular dividends in 2016, an increase of 3.8% over the \$2.08 per share in regular dividends paid in 2015. Additionally, we expended \$676.9 million to repurchase 10.0 million shares, or 4.0%, of our outstanding common stock in 2016. These dividends and repurchases were expended using existing cash balances and cash generated from operations. We will generally repurchase our common stock over time to offset the dilution created by our equity-based compensation plans. In December 2016, our Board of Directors increased our share repurchase program by 12 million shares.

As detailed below, we have returned \$4.1 billion to stockholders over the last three years through stock repurchases, our regular quarterly dividends, and a special dividend in 2015.

| (in millions) | Recurring dividend | Special dividend | Stock repurchases | Total cash returned to stockholders |
|---------------|--------------------|------------------|-------------------|-------------------------------------|
| 2014 | \$ 462.1 | \$ — | \$ 415.5 | \$ 877.6 |
| 2015 | 534.5 | 524.5 | 987.8 | 2,046.8 |
| 2016 | 541.2 | — | 676.9 | 1,218.1 |
| Total | \$ 1,537.8 | \$ 524.5 | \$ 2,080.2 | \$ 4,142.5 |

We remain debt-free with ample liquidity, including cash and discretionary sponsored portfolio investment holdings of \$1.9 billion at December 31, 2016. We also have seed capital investments in sponsored investment portfolios of \$1.3 billion that are redeemable, although we generally expect to be invested for several years until unrelated third-party investors substantially reduce our relative ownership percentage. The cash and discretionary sponsored investment holdings held by our subsidiaries outside the U.S. is \$4 million at December 31, 2016.

The following table details (in millions) the line items of the consolidated balance sheet as of December 31, 2016, where our cash and discretionary sponsored portfolio investment holdings and seed capital investments are presented, as well as the amount of other investments we hold that make up the remainder of the investments line in the financial statements. The investment presentation on the consolidated balance sheet is based on the type of investment, as well as how we account for it.

| | Interest Held by T. Rowe Price Group | | | | | As reported on consolidated balance sheet 12/31/2016 |
|--|--|--|---|-------------------|-------------------------------------|--|
| | Cash and discretionary investments in sponsored portfolios | Seed capital investments in sponsored portfolios | Investment in UTI and other investments | Total | Redeemable non-controlling interest | |
| Cash and cash equivalents | \$ 1,204.9 | \$ — | \$ — | \$ 1,204.9 | \$ — | \$ 1,204.9 |
| Investments | 691.6 | 345.1 | 220.8 | 1,257.5 | — | 1,257.5 |
| Net assets of consolidated sponsored investment portfolios | 9.0 | 918.7 | — | 927.7 | 687.2 | 1,614.9 |
| | \$ 1,905.5 | \$ 1,263.8 | \$ 220.8 | \$ 3,390.1 | \$ 687.2 | \$ 4,077.3 |

On January 1, 2016, we implemented new consolidation accounting guidance that resulted in the consolidation of sponsored investment portfolios in which we have a controlling interest. Our consolidated balance sheet now reflects the cash and cash equivalents, investments, other assets and liabilities of the sponsored portfolios, as well as redeemable non-controlling interests for the portion of the sponsored portfolios that are held by unrelated third-party investors. Although we can redeem our net interest in these sponsored investment portfolios at any time, we cannot directly access or sell the assets held by the portfolios to obtain cash for general operations. Additionally, the assets of these investment portfolios are not available to our general creditors. Our interest in these sponsored investment portfolios was used as initial seed capital and is reclassified as discretionary when it is determined by management that the seed capital is no longer needed. We assess the discretionary investment portfolio and when we liquidate our interest, we do so in a way as to not impact the portfolio and, ultimately, the unrelated third-party investors.

We anticipate property and equipment expenditures in 2017 to be up to \$175 million, of which about two-thirds is planned for technology initiatives. Given the availability of our financial resources, we expect to fund our anticipated capital expenditures with operating resources and do not maintain an available external source of liquidity.

2016 versus 2015

The following table summarizes the cash flows (in millions) for 2016, that are attributable to T. Rowe Price Group, our consolidated sponsored investment portfolios, and the related eliminations required in preparing the statement.

| | For year ended 12/31/2016 | | | | |
|--|---|---|--|--------------|--|
| | As reported for the year ended 12/31/2015 | Cash flow attributable to T. Rowe Price Group | Cash flow attributable to consolidated sponsored investment portfolios | Eliminations | As reported on statement of cash flows |
| Cash flows from operating activities | | | | | |
| Net income | \$ 1,223.0 | \$ 1,215.0 | \$ 108.1 | \$ (69.1) | \$ 1,254.0 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | | | | |
| Depreciation and amortization of property and equipment | 126.3 | 133.4 | — | — | 133.4 |
| Stock-based compensation expense | 149.0 | 161.6 | — | — | 161.6 |
| Realized gains on dispositions of available-for-sale sponsored investment portfolios | (56.5) | (53.0) | — | — | (53.0) |
| Net gains recognized on investments | (5.9) | (100.1) | — | 69.1 | (31.0) |
| Net change in trading securities held by consolidated sponsored investment portfolios | (7.5) | — | (1,297.9) | — | (1,297.9) |
| Other changes in assets and liabilities | 102.1 | (13.2) | 23.2 | (6.6) | 3.4 |
| Net cash provided by (used in) operating activities | 1,530.5 | 1,343.7 | (1,166.6) | (6.6) | 170.5 |
| Net cash provided by (used in) investing activities | 109.0 | (219.7) | 41.4 | 284.5 | 106.2 |
| Net cash provided by (used in) financing activities | (1,973.3) | (1,091.4) | 1,192.9 | (277.9) | (176.4) |
| Effect of exchange rate changes on cash and cash equivalents of consolidated sponsored investment portfolios | — | — | (2.1) | — | (2.1) |
| Net change in cash and cash equivalents during period | (333.8) | 32.6 | \$ 65.6 | — | 98.2 |
| Cash and cash equivalents at beginning of year | 1,506.1 | 1,172.3 | \$ — | — | 1,172.3 |
| Cash and cash equivalents at end of period | \$ 1,172.3 | \$ 1,204.9 | \$ 65.6 | \$ — | \$ 1,270.5 |

Operating activities attributable to T. Rowe Price Group during 2016 provided cash flows of \$1,343.7 million, a decrease of \$186.8 million from the 2015 period. The decline is primarily related to the payments totaling \$166.2 million we made in 2016 to compensate certain clients in regard to the Dell appraisal rights matter. We entered into an agreement on December 30, 2016, for a \$100 million insurance recovery that we received in January 2017. The net cash provided by operating activities attributable to T. Rowe Price Group was offset in part by the net change in trading securities held in our consolidated sponsored investments' underlying investment portfolios.

Net cash used in investing activities that are attributable to T. Rowe Price Group totaled \$219.7 million in 2016. In 2016, we provided \$284.5 million in seed capital to new and existing sponsored investment portfolios. We utilized

a portion of the \$219.5 million in proceeds from the sale of certain available-for-sale investments and equity method investments in 2016 to fund these seed capital investments. Since we consolidate these sponsored investment portfolios, the seed capital that we provided was eliminated in preparing our consolidated statement of cash flow. In 2015, cash proceeds from the sale of certain sponsored fund holdings, net of new investments, resulted in investing cash flows of \$269.7 million. Additionally, our net property and equipment additions were \$148.3 million in 2016 compared to \$151.3 million in the 2015 period. The cash flow attributable to consolidated sponsored investment portfolios of \$41.4 million represents the net cash added to our consolidated balance sheet from consolidating and deconsolidating portfolios in 2016.

Net cash used in financing activities attributable to T. Rowe Price Group was \$1,091.4 million in 2016 compared with \$1,973.3 million in the 2015 period. The decline in cash used in financing activities is largely related to the \$2.00 per share, or \$524 million, special dividend we paid in April 2015. We also expended \$310.9 million less in common stock purchases in 2016 compared to the 2015 period. The cash proceeds received from stock option exercises were higher in 2016 by \$52.8 million compared with the 2015 period. The net cash used in financing activities attributable to T. Rowe Price Group was largely offset by the \$915.0 million of net subscriptions into the consolidated sponsored investment portfolios.

2015 versus 2014

Operating activities during 2015 provided cash flows of \$1.5 billion, up \$215.1 million from the 2014 period. We used \$75.0 million less cash in 2015 compared with the 2014 period as we seeded fewer new sponsored investment portfolios. Higher noncash depreciation and amortization and noncash stock-based compensation in 2015 increased cash flows by \$30.2 million. Timing differences on the cash settlement of our assets and liabilities increased our operating cash flows by \$114.8 million compared to 2014. More than half of the timing difference on the cash settlement of our assets and liabilities is related to bonus compensation that was deferred by certain employees under the new Supplemental Savings Plan that went into effect in 2015. The Supplemental Savings Plan provides certain senior officers the opportunity to defer any portion of their cash incentive compensation earned for a respective calendar year during which services are provided for a period of two or more years.

Net cash provided by investing activities totaled \$109.0 million in 2015, compared with net cash used of \$443.4 million in the 2014 period. In 2015, cash proceeds from the sale of certain sponsored fund holdings, net of new investments, resulted in investing cash flows of \$269.7 million. This compares with net investments of \$305.3 million that we made into our sponsored fund investments in 2014. We increased our property and equipment additions by \$25.1 million during 2015 compared to the 2014 period.

Net cash used in financing activities was \$1,949.2 million in 2015, up \$1,209.4 million from the comparable 2014 period. The payment of a \$2.00 special dividend on April 23, 2015, and an 18% increase in our regular quarterly per-share dividend accounted for \$596.9 million of the increase from 2014. We also increased our common stock repurchases by \$572.3 million during 2015 compared with 2014.

CONTRACTUAL OBLIGATIONS

The following table presents a summary of our future obligations (in millions) under the terms of existing operating leases and other contractual cash purchase commitments at December 31, 2016. Other purchase commitments include contractual amounts that will be due for the purchase of goods or services to be used in our operations and may be cancelable at earlier times than those indicated, under certain conditions that may involve termination fees. Because these obligations are generally of a normal recurring nature, we expect that we will fund them from future cash flows from operations. The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2017 and future years. The information also excludes the \$6.2 million of unrecognized tax benefits discussed in Note 7 to our consolidated financial statements because it is not possible to estimate the time period in which a payment might be made to the tax authorities.

| | Total | 2017 | 2018–2019 | 2020–2021 | Later |
|--------------------------------|---------------|---------------|---------------|--------------|---------------|
| Noncancelable operating leases | \$ 262 | \$ 29 | \$ 64 | \$ 54 | \$ 115 |
| Other purchase commitments | 191 | 148 | 40 | 3 | — |
| Total | \$ 453 | \$ 177 | \$ 104 | \$ 57 | \$ 115 |

We also have outstanding commitments to fund additional contributions to investment partnerships totaling \$46.4 million at December 31, 2016. The vast majority of these additional contributions will be made to investment partnerships in which we have an existing investment. In addition to such amounts, a percentage of prior distributions may be called under certain circumstances.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements often requires the selection of specific accounting methods and policies from among several acceptable alternatives. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in our consolidated balance sheets, the revenues and expenses in our consolidated statements of income, and the information that is contained in our significant accounting policies and notes to consolidated financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that we include currently in our consolidated financial statements, significant accounting policies, and notes.

We present those significant accounting policies used in the preparation of our consolidated financial statements as an integral part of those statements within this 2016 Annual Report. In the following discussion, we highlight and explain further certain of those policies that are most critical to the preparation and understanding of our financial statements.

Consolidation. We consolidate all subsidiaries and sponsored investment portfolios in which we have a controlling interest. We are generally deemed to have a controlling interest when we own the majority of the voting interest of an entity or are deemed to be the primary beneficiary of a variable interest entity (VIE). VIEs are entities that lack sufficient equity to finance its activities or the equity holders do not have defined power to direct the activities of the entity normally associated with an equity investment. Our analysis to determine whether an entity is a VIE or a voting interest entity (VOE) involves judgment and considers several factors, including an entity's legal organization, capital structure, the rights of the equity investment holders, our ownership interest in the entity, and our contractual involvement with the entity. We continually review and reconsider our VIE or VOE conclusions upon the occurrence of certain events, such as changes to our ownership interest, changes to an entity's legal structure, or amendments to governing documents. Our VIEs are primarily sponsored investment entities and our variable interest consists of our equity ownership in and investment management fees earned from these entities.

We are the primary beneficiary if we have the power to direct the activities of the VIE that most significantly impact its economic performance and the obligation to absorb losses of the entity or the right to receive benefits from the VIE that could potentially be significant. Our SICAV funds and other sponsored investment portfolios regulated outside the U.S. are determined to be VIEs. At December 31, 2016, we consolidated VIEs with net assets of \$1,389.3 million.

Other-than-temporary impairments of available-for-sale securities. We generally classify our investment holdings in sponsored funds as available-for-sale if we are not deemed to have a controlling financial interest nor exercise significant influence over its operating and financial policies. At the end of each quarter, we mark the carrying amount of each investment holding to fair value and recognize an unrealized gain or loss as a component of comprehensive income within the consolidated statements of comprehensive income. We review each individual security position that has an unrealized loss or impairment to determine if that impairment is other than temporary.

In determining whether a mutual fund holding is other-than-temporarily impaired, we consider many factors, including the duration of time the impairment has existed, the severity of the impairment, any subsequent changes in value, and our intent and ability to hold the security for a period of time sufficient for an anticipated recovery in fair value. Subject to the other considerations noted above, we believe a fund holding with an unrealized loss that has persisted daily throughout the six months between quarter-ends is generally presumed to have an other-than-temporary impairment. We may also recognize an other-than-temporary impairment for losses that have existed for less than six months in our consolidated statements of income if the particular circumstances of the underlying investment do not warrant our belief that a near-term recovery is possible.

Other-than-temporary impairments of equity method investments. We evaluate our equity method investments, including our investment in UTI and other sponsored investment holdings, for impairment when events or changes in circumstances indicate that the carrying value of the investment exceeds its fair value, and the decline in fair value is other than temporary.

Goodwill. We internally conduct, manage, and report our operations as one investment advisory business. We do not have distinct operating segments or components that separately constitute a business. Accordingly, we attribute goodwill to a single reportable business segment and reporting unit—our investment advisory business.

We evaluate the carrying amount of goodwill in our consolidated balance sheets for possible impairment on an annual basis in the third quarter of each year using a fair value approach. Goodwill would be considered impaired whenever our historical carrying amount exceeds the fair value of our investment advisory business. Our annual testing has demonstrated that the fair value of our investment advisory business (our market capitalization) exceeds our carrying amount (our stockholders' equity) and, therefore, no impairment exists. Should we reach a different conclusion in the future, additional work would be performed to ascertain the amount of the noncash impairment charge to be recognized. We must also perform impairment testing at other times if an event or circumstance occurs indicating that it is more likely than not that an impairment has been incurred. The maximum future impairment of goodwill that we could incur is the amount recognized in our consolidated balance sheets, \$665.7 million.

Stock options. We recognize stock option-based compensation expense in our consolidated statements of income using a fair value-based method. Fair value methods use a valuation model for shorter-term, market-traded financial instruments to theoretically value stock option grants even though they are not available for trading and are of longer duration. The Black-Scholes option-pricing model that we use includes the input of certain variables that are dependent on future expectations, including the expected lives of our options from grant date to exercise date; the volatility of our underlying common shares in the market over that time period; and the rate of dividends that we will pay during that time. Our estimates of these variables are made for the purpose of using the valuation model to determine an expense for each reporting period and are not subsequently adjusted. Unlike most of our expenses, the resulting charge to earnings using a fair value-based method is a noncash charge that is never measured by, or adjusted based on, a cash outflow.

Provision for income taxes. After compensation and related costs, our provision for income taxes on our earnings is our largest annual expense. We operate in numerous states and countries through our various subsidiaries and must allocate our income, expenses, and earnings under the various laws and regulations of each of these taxing jurisdictions. Accordingly, our provision for income taxes represents our total estimate of the liability that we have incurred in doing business each year in all of our locations. Annually, we file tax returns that represent our filing positions with each jurisdiction and settle our return liabilities. Each jurisdiction has the right to audit those returns and may take different positions with respect to income and expense allocations and taxable earnings determinations. From time to time, we may also provide for estimated liabilities associated with uncertain tax return filing positions that are subject to, or in the process of, being audited by various tax authorities. Because the determination of our annual provision is subject to judgments and estimates, it is likely that actual results will vary from those recognized in our financial statements. As a result, we recognize additions to, or reductions of, income tax expense during a reporting period that pertain to prior period provisions as our estimated liabilities are revised and actual tax returns and tax audits are settled. We recognize any such prior period adjustment in the discrete quarterly period in which it is determined.

NEWLY ISSUED BUT NOT YET ADOPTED ACCOUNTING GUIDANCE

In May 2014, the FASB issued Accounting Standards Update No. 2014-09—Revenue from Contracts with Customers, and subsequently has issued five related accounting standard updates clarifying several aspects of ASU 2014-09, including technical corrections and improvements. The overall objective of the new standards updates is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that will be applied to determine the measurement of revenue and timing of when it is recognized. We anticipate adopting the new standard on its effective date, January 1, 2018, though we have not yet selected whether we would adopt using the retrospective approach with adjustments to each prior period or the retrospective method with the cumulative effect of initial application recognized at the date of initial application. While we are continuing to assess all potential impacts these standards will have on our financial position and results of operations, early conclusions indicate that these standards will not have a material impact. Our implementation efforts include the identification of revenue within the scope of the guidance, as well as the evaluation of revenue contracts. While we have not identified material changes in the timing of revenue recognition, we continue to evaluate the presentation of certain revenue-related costs on a gross versus net basis and related disclosures of revenue.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01—Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update

address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017, and requires a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Early adoption is not permitted. The new guidance will require the change in fair value of equity investments with readily determinable fair values to be recognized through the income statements. We are currently evaluating the full impact of the standard; however, upon adoption, the change in the fair value of our available-for-sale investments will be recognized in our consolidated income statement rather than our consolidated statement of comprehensive income.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02—Leases (Topic 842). The objective of the update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact this standard will have on our financial position and results of operations, though we expect that our real estate leases will be recognized on our consolidated balance sheet.

In August 2016, the FASB issued Accounting Standards Update No. 2016-05—Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendments in this update provide guidance on eight specific cash flow issues. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact this standard will have on our consolidated statements of cash flows.

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our consolidated financial statements, including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operation.

FORWARD-LOOKING INFORMATION

From time to time, information or statements provided by or on behalf of T. Rowe Price, including those within this report, may contain certain forward-looking information, including information or anticipated information relating to: our revenues, net income, and earnings per share on common stock; changes in the amount and composition of our assets under management; our expense levels; our estimated effective income tax rate; and our expectations regarding financial markets, future transactions, dividends, investments, capital expenditures, and other conditions. Readers are cautioned that any forward-looking information provided by or on behalf of T. Rowe Price is not a guarantee of future performance. Actual results may differ materially from those in forward-looking information because of various factors including, but not limited to, those discussed below and in Item 1A, Risk Factors, of this Form 10-K Annual Report. Further, forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events.

Our future revenues and results of operations will fluctuate primarily due to changes in the total value and composition of assets under our management. Such changes result from many factors, including, among other things: cash inflows and outflows in the T. Rowe Price mutual funds and other managed investment portfolios, fluctuations in global financial markets that result in appreciation or depreciation of the assets under our management, our introduction of new mutual funds and investment portfolios, and changes in retirement savings trends relative to participant-directed investments and defined contribution plans. The ability to attract and retain investors' assets under our management is dependent on investor sentiment and confidence; the relative investment performance of the Price mutual funds and other managed investment portfolios as compared to competing offerings and market indexes; the ability to maintain our investment management and administrative fees at appropriate levels; competitive conditions in the mutual fund, asset management, and broader financial services sectors; and our level of success in implementing our strategy to expand our business. Our revenues are substantially dependent on fees earned under contracts with the Price funds and could be adversely affected if the independent directors of one or more of the Price funds terminated or significantly altered the terms of the investment management or related administrative services agreements. Non-operating investment income will also fluctuate primarily due to the size of our investments, changes in their market valuations, and any other-than-temporary impairments that may arise or, in the case of our equity method investments, our proportionate share of the investee's net income.

Our future results are also dependent upon the level of our expenses, which are subject to fluctuation for the following or other reasons: changes in the level of our advertising and promotion expenses in response to market conditions, including

our efforts to expand our investment advisory business to investors outside the U.S. and to further penetrate our distribution channels within the U.S.; the pace and level of our planned increase in spending to support key strategic priorities; variations in the level of total compensation expense due to, among other things, bonuses, restricted stock units and other equity grants, other incentive awards, changes in our employee count and mix, and competitive factors; any goodwill or other asset impairment that may arise; fluctuation in foreign currency exchange rates applicable to the costs of our international operations; expenses and capital costs, such as technology assets, depreciation, amortization, and research and development, incurred to maintain and enhance our administrative and operating services infrastructure; unanticipated costs that may be incurred to protect investor accounts and the goodwill of our clients; and disruptions of services, including those provided by third parties, such as fund and portfolio recordkeeping, facilities, communications, power, and the mutual fund transfer agent and accounting systems.

Our business is also subject to substantial governmental regulation, and changes in legal, regulatory, accounting, tax, and compliance requirements may have a substantial effect on our operations and results, including, but not limited to, effects on costs that we incur and effects on investor interest in mutual funds and investing in general or in particular classes of mutual funds or other investments.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following table (in millions) presents the equity price risk from our investments in our sponsored investment portfolios as they are carried at fair value. Investments in these portfolios generally moderate market risk as they are diversified portfolios that invest in a number of different financial instruments. T. Rowe Price further manages its exposure to market risk by diversifying its investments among many domestic and international funds as well as diversification among equity and fixed income portfolios. In addition, investment holdings may be altered from time to time in response to changes in market risks and other factors, as management deems appropriate.

We have chosen to use a variant of each portfolio's net asset value to quantify the equity price risk, as we believe the volatility in each portfolio's net asset value best reflects the underlying risk potential as well as the market trends surrounding each of its investment objectives. The potential future loss of value, before any income tax benefits, of these fund investments at year-end was determined by using the lower of each portfolio's lowest net asset value per share during 2016 or its net asset value per share at December 31, 2016, reduced by 10%. In considering this presentation, it is important to note that: Not all portfolios experienced their lowest net asset value per share on the same day; it is likely that the composition of the investment portfolio would be changed if adverse market conditions persisted; and we could experience future losses in excess of those presented below.

| | Fair value 12/31/2016 | Potential lower value | 2016 potential loss | |
|---|--------------------------|--------------------------|---------------------|-----|
| Investments—available-for-sale | \$ 709.0 | \$ 627.8 | \$ 81.2 | 11% |
| Investments—trading | \$ 75.4 | \$ 67.7 | \$ 7.7 | 10% |
| Direct investment in consolidated sponsored investment portfolios | \$ 927.7 | \$ 813.9 | \$ 113.8 | 12% |

For available-for-sale securities, any losses arising from changes in fair value are recognized in other comprehensive income, net of tax, until the investment is disposed of, or if the investment is determined to be other-than-temporarily impaired. We review the carrying amount of each investment on a quarterly basis and recognize an impairment charge in non-operating income (loss) whenever an unrealized loss is considered other than temporary.

The direct investment in consolidated sponsored investment portfolios represents our portion of the net assets of the portfolio. Upon consolidation of these portfolios, our direct investment is eliminated and the net assets of the portfolio are combined in our consolidated balance sheet, together with redeemable non-controlling interest, which represents the portion of the portfolio that is owned by unrelated third-party investors. Any losses arising from the change in fair value of our direct investments in consolidated sponsored investment portfolios would result in a corresponding decrease, net of tax, in our net income attributable to T. Rowe Price Group.

Certain of our investments, including a few consolidated sponsored investment portfolios, expose us to foreign currency translation risk when their foreign denominated financial statements are translated into U.S. dollars. Our most significant exposure relates to the translation of the financial statements of our equity method investment in UTI (\$140.9 million at December 31, 2016), whose financial statements are denominated in Indian rupees (INR) and are translated

to U.S. dollars (USD) each reporting period. We do not use derivative financial instruments to manage this foreign currency risk, so both positive and negative fluctuations in the INR against the USD will affect accumulated other comprehensive income and the carrying amount of our investment. We had a cumulative translation loss, net of tax, of \$32.3 million at December 31, 2016, related to our investment in UTI. Given the nature of UTI's business, should conditions deteriorate in markets in which they operate, we are at risk for loss up to our carrying amount.

We operate in several foreign countries of which the United Kingdom is the most prominent. We incur operating expenses and have foreign currency-denominated assets and liabilities associated with these operations, although our revenues are predominately realized in USD. We do not believe that foreign currency fluctuations materially affect our results of operations.

Consolidated Balance Sheets

(in millions, except share data)

| | December 31, | 2015 | 2016 |
|--|--------------|-------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents | | \$ 1,172.3 | \$ 1,204.9 |
| Accounts receivable and accrued revenue | | 446.0 | 455.1 |
| Investments | | 1,961.2 | 1,257.5 |
| Assets of consolidated sponsored investment portfolios (\$0 and \$1,446.1 million, respectively, related to variable interest entities) | | 57.7 | 1,680.5 |
| Property and equipment, net | | 607.1 | 615.1 |
| Goodwill | | 665.7 | 665.7 |
| Other assets | | 196.9 | 346.2 |
| Total assets | | \$ 5,106.9 | \$ 6,225.0 |
| Liabilities | | | |
| Accounts payable and accrued expenses | | \$ 170.6 | \$ 180.8 |
| Liabilities of consolidated sponsored investment portfolios (\$0 and \$56.8 million, respectively, related to variable interest entities) | | — | 65.6 |
| Accrued compensation and related costs | | 84.2 | 92.6 |
| Supplemental savings plan liability | | 68.9 | 150.9 |
| Income taxes payable | | 21.2 | 39.3 |
| Total liabilities | | 344.9 | 529.2 |
| Commitments and contingent liabilities | | | |
| Redeemable non-controlling interests | | — | 687.2 |
| Stockholders' Equity | | | |
| Preferred stock, undesignated, \$.20 par value—authorized and unissued 20,000,000 shares | | — | — |
| Common stock, \$.20 par value—authorized 750,000,000; issued 250,469,000 shares at December 31, 2015, and 244,784,000 at December 31, 2016 | | 50.1 | 49.0 |
| Additional capital in excess of par value | | 654.6 | 654.5 |
| Retained earnings | | 3,970.7 | 4,293.6 |
| Accumulated other comprehensive income | | 86.6 | 11.5 |
| Total permanent stockholders' equity | | 4,762.0 | 5,008.6 |
| Total liabilities, redeemable non-controlling interests and permanent stockholders' equity | | \$ 5,106.9 | \$ 6,225.0 |

Consolidated Statements of Income

(in millions, except earnings per share)

| | Year ended December 31, | 2014 | 2015 | 2016 |
|---|-------------------------|-------------------|-------------------|-------------------|
| Revenues | | | | |
| Investment advisory fees | | \$ 3,464.5 | \$ 3,687.3 | \$ 3,728.7 |
| Administrative fees | | 374.0 | 361.8 | 352.5 |
| Distribution and servicing fees | | 143.6 | 151.5 | 141.7 |
| Net revenues | | 3,982.1 | 4,200.6 | 4,222.9 |
| Operating Expenses | | | | |
| Compensation and related costs | | 1,329.6 | 1,443.6 | 1,494.0 |
| Advertising and promotion | | 76.0 | 79.7 | 79.9 |
| Distribution and servicing costs | | 143.6 | 151.5 | 141.7 |
| Depreciation and amortization of property and equipment | | 111.7 | 126.3 | 133.4 |
| Occupancy and facility costs | | 143.9 | 159.2 | 172.8 |
| Other operating expenses | | 286.4 | 341.4 | 401.5 |
| Nonrecurring charge, net of insurance recovery, related to Dell appraisal rights matter | | — | — | 66.2 |
| Total operating expenses | | 2,091.2 | 2,301.7 | 2,489.5 |
| Net Operating Income | | 1,890.9 | 1,898.9 | 1,733.4 |
| Non-operating Income | | | | |
| Net investment income on investments | | 114.7 | 105.3 | 108.0 |
| Net investment income on consolidated sponsored investment portfolios | | — | 1.5 | 121.1 |
| Other expenses | | (2.5) | (3.3) | (2.0) |
| Total non-operating income | | 112.2 | 103.5 | 227.1 |
| Income before income taxes | | 2,003.1 | 2,002.4 | 1,960.5 |
| Provision for income taxes | | 773.5 | 779.4 | 706.5 |
| Net income | | \$ 1,229.6 | \$ 1,223.0 | \$ 1,254.0 |
| Less: net income attributable to redeemable non-controlling interests | | — | — | 39.0 |
| Net income attributable to T. Rowe Price Group | | \$ 1,229.6 | \$ 1,223.0 | \$ 1,215.0 |
| Earnings Per Share on Common Stock | | | | |
| Basic | \$ | 4.68 | \$ 4.74 | \$ 4.85 |
| Diluted | \$ | 4.55 | \$ 4.63 | \$ 4.75 |

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

(in millions)

| | Year ended December 31, | 2014 | 2015 | 2016 |
|--|-------------------------|----------------|-------------------|-------------------|
| Net income | \$ | 1,229.6 | \$ 1,223.0 | \$ 1,254.0 |
| Other Comprehensive Loss | | | | |
| Net unrealized holding losses on available-for-sale investments | | (1.9) | (4.5) | (1.0) |
| Reclassification of (gains) and losses in accumulated other comprehensive income to non-operating investment income: | | | | |
| Capital gain distributions | | (31.1) | (20.8) | (6.0) |
| Net gains realized on dispositions determined using average cost | | (49.3) | (56.5) | (53.0) |
| Other-than-temporary impairments | | — | 4.8 | — |
| Total reclassification adjustments | | (80.4) | (72.5) | (59.0) |
| Total net unrealized holding losses recognized in other comprehensive income | | (82.3) | (77.0) | (60.0) |
| Currency translation adjustments | | | | |
| Currency translation adjustments of consolidated sponsored investment portfolios—variable interest entities | | (3.6) | (4.9) | (9.5) |
| Reclassification: losses (gains) recognized in non-operating investment income upon deconsolidation of sponsored fund subsidiaries | | — | 5.8 | (2.2) |
| Total currency translation adjustments of consolidated sponsored investment portfolios—variable interest entities | | (3.6) | .9 | (11.7) |
| Equity method investments | | 1.8 | (8.1) | (1.6) |
| Total currency translation adjustments | | (1.8) | (7.2) | (13.3) |
| Other comprehensive loss before income taxes | | | | |
| Deferred tax benefits | | (84.1) | (84.2) | (73.3) |
| Deferred tax benefits | | 32.2 | 34.4 | 28.2 |
| Total other comprehensive loss | | (51.9) | (49.8) | (45.1) |
| Total comprehensive income | \$ | 1,177.7 | \$ 1,173.2 | \$ 1,208.9 |
| Less: comprehensive income attributable to redeemable non-controlling interests | \$ | — | \$ — | \$ 36.5 |
| Comprehensive income attributable to T. Rowe Price Group | \$ | 1,177.7 | \$ 1,173.2 | \$ 1,172.4 |

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows⁽¹⁾

(in millions)

| | Year ended December 31, | 2014 | 2015 | 2016 |
|---|-------------------------|----------------|-------------------|-------------------|
| Cash Flows From Operating Activities | | | | |
| Net income | \$ | 1,229.6 | \$ 1,223.0 | \$ 1,254.0 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Depreciation and amortization of property and equipment | | 111.7 | 126.3 | 133.4 |
| Stock-based compensation expense | | 133.4 | 149.0 | 161.6 |
| Realized gains on the dispositions of sponsored funds | | (49.3) | (56.5) | (53.0) |
| Net gains recognized on other investments | | (11.1) | (5.9) | (31.0) |
| Net change in trading securities held by consolidated sponsored investment portfolios | | (86.2) | (7.5) | (1,297.9) |
| Changes in accounts receivable and accrued revenue | | (31.5) | (3.2) | (9.3) |
| Changes in payables and accrued liabilities | | 36.5 | 98.2 | 138.6 |
| Other changes in assets and liabilities | | 10.8 | 7.1 | (125.9) |
| Net cash provided by operating activities | | 1,343.9 | 1,530.5 | 170.5 |
| Cash Flows From Investing Activities | | | | |
| Purchases of available-for-sale sponsored fund investments | | (471.9) | (164.8) | (.1) |
| Dispositions of available-for-sale sponsored fund investments | | 166.6 | 434.5 | 133.7 |
| Net cash of sponsored investment portfolios on consolidation | | — | — | 41.4 |
| Additions to property and equipment | | (126.2) | (151.3) | (148.3) |
| Other investing activity | | (11.9) | (9.4) | 79.5 |
| Net cash provided by (used in) investing activities | | (443.4) | 109.0 | 106.2 |
| Cash Flows From Financing Activities | | | | |
| Repurchases of common stock | | (415.5) | (987.8) | (676.9) |
| Common share issuances under stock-based compensation plans | | 85.2 | 73.5 | 126.3 |
| Dividends | | (462.1) | (1,059.0) | (540.8) |
| Net subscriptions received from redeemable non-controlling interest holders | | — | — | 915.0 |
| Net cash used in financing activities | | (792.4) | (1,973.3) | (176.4) |
| Effect of exchange rate changes on cash and cash equivalents of consolidated sponsored investment portfolios | | | | |
| | | — | — | (2.1) |
| Net change in cash and cash equivalents during period | | 108.1 | (333.8) | 98.2 |
| Cash and cash equivalents at beginning of year | | 1,398.0 | 1,506.1 | 1,172.3 |
| Cash and cash equivalents at end of year, including \$65.6 million held by consolidated sponsored investment portfolios at December 31, 2016 | \$ | 1,506.1 | \$ 1,172.3 | \$ 1,270.5 |

⁽¹⁾See note 14 for a supplemental consolidating cash flow schedule.

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

(shares in thousands; dollars in millions)

| | Common shares outstanding | Common stock | Additional capital in excess of par value | Retained earnings | Accumulated other comprehensive income (loss) | Total stockholders' equity | Redeemable non-controlling interests |
|---|---------------------------------|-----------------|--|----------------------|--|----------------------------------|--|
| Balances at December 31, 2013 | 262,073 | \$ 52.4 | \$ 894.6 | \$ 3,682.8 | \$ 188.3 | \$ 4,818.1 | \$ — |
| Net income | — | — | — | 1,229.6 | — | 1,229.6 | — |
| Other comprehensive income, net of tax | — | — | — | — | (51.9) | (51.9) | — |
| Dividends | — | — | — | (462.1) | — | (462.1) | — |
| Common stock-based compensation plans activity | | | | | | | |
| Shares issued upon option exercises | 3,679 | .8 | 106.3 | — | — | 107.1 | — |
| Restricted shares issued, net of shares withheld for taxes | 625 | .1 | (12.3) | — | — | (12.2) | — |
| Shares issued upon vesting of restricted stock units, net of shares withheld for taxes | 163 | — | (4.7) | — | — | (4.7) | — |
| Forfeiture of restricted awards | (117) | — | — | — | — | — | — |
| Net tax benefits | — | — | 53.4 | — | — | 53.4 | — |
| Stock-based compensation expense | — | — | 133.4 | — | — | 133.4 | — |
| Restricted stock units issued as dividend equivalents | — | — | .2 | (.2) | — | — | — |
| Common shares repurchased | (5,313) | (1.1) | (414.4) | — | — | (415.5) | — |
| Balances at December 31, 2014 | 261,110 | 52.2 | 756.5 | 4,450.1 | 136.4 | 5,395.2 | — |
| Net income | — | — | — | 1,223.0 | — | 1,223.0 | — |
| Other comprehensive loss, net of tax | — | — | — | — | (49.8) | (49.8) | — |
| Dividends | — | — | — | (1,059.0) | — | (1,059.0) | — |
| Common stock-based compensation plans activity | | | | | | | |
| Shares issued upon option exercises | 2,471 | .5 | 84.0 | — | — | 84.5 | — |
| Restricted shares issued, net of shares withheld for taxes | (180) | — | (14.3) | — | — | (14.3) | — |
| Shares issued upon vesting of restricted stock units, net of shares withheld for taxes | 236 | — | (2.0) | — | — | (2.0) | — |
| Forfeiture of restricted awards | (59) | — | — | — | — | — | — |
| Net tax benefits | — | — | 23.2 | — | — | 23.2 | — |
| Stock-based compensation expense | — | — | 149.0 | — | — | 149.0 | — |
| Restricted stock units issued as dividend equivalents | — | — | .2 | (.2) | — | — | — |
| Common shares repurchased | (13,109) | (2.6) | (342.0) | (643.2) | — | (987.8) | — |
| Balances at December 31, 2015 | 250,469 | 50.1 | 654.6 | 3,970.7 | 86.6 | 4,762.0 | — |
| Reclassification of sponsored investment portfolios upon adoption of new accounting guidance on January 1, 2016 | — | — | — | 32.5 | (32.5) | — | 672.7 |
| Cumulative effect adjustment upon adoption of new stock-based compensation guidance on January 1, 2016 | — | — | 12.9 | (9.0) | — | 3.9 | — |
| Balances at January 1, 2016 | 250,469 | 50.1 | 667.5 | 3,994.2 | 54.1 | 4,765.9 | 672.7 |
| Net income | — | — | — | 1,215.0 | — | 1,215.0 | 39.0 |
| Other comprehensive loss, net of tax | — | — | — | — | (42.6) | (42.6) | (2.5) |
| Dividends | — | — | — | (541.2) | — | (541.2) | — |
| Common stock-based compensation plans activity | | | | | | | |
| Shares issued upon option exercises | 4,140 | .8 | 148.7 | — | — | 149.5 | — |
| Restricted shares withheld for taxes, net of shares issued | (178) | — | (14.0) | — | — | (14.0) | — |
| Shares issued upon vesting of restricted stock units, net of shares withheld for taxes | 409 | .1 | (8.8) | — | — | (8.7) | — |
| Forfeiture of restricted awards | (61) | — | — | — | — | — | — |
| Stock-based compensation expense | — | — | 161.6 | — | — | 161.6 | — |
| Restricted stock units issued as dividend equivalents | — | — | .1 | (.1) | — | — | — |
| Common shares repurchased | (9,995) | (2.0) | (300.6) | (374.3) | — | (676.9) | — |
| Net subscriptions into sponsored investment portfolios | — | — | — | — | — | — | 945.3 |
| Net deconsolidations of sponsored investment portfolios | — | — | — | — | — | — | (967.3) |
| Balances at December 31, 2016 | 244,784 | \$ 49.0 | \$ 654.5 | \$ 4,293.6 | \$ 11.5 | \$ 5,008.6 | \$ 687.2 |

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Summary of Significant Accounting Policies

T. Rowe Price Group derives its consolidated revenues and net income primarily from investment advisory services that its subsidiaries provide to individual and institutional investors in the sponsored T. Rowe Price U.S. mutual funds and other investment portfolios. We also provide our investment advisory clients with related administrative services, including distribution, mutual fund transfer agent, accounting and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage, and trust services.

Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations.

BASIS OF PREPARATION

These consolidated financial statements have been prepared by our management in accordance with accounting principles generally accepted in the U.S. These principles require that we make certain estimates and assumptions. Actual results may vary from our estimates. Certain prior year amounts have been reclassified to conform to the 2016 presentation.

NEW ACCOUNTING GUIDANCE

We implemented Accounting Standards Update No. 2015-02—Consolidation (Topic 810): Amendments to the Consolidation Analysis on January 1, 2016, which did not require the restatement of prior-year periods. In connection with the adoption of this guidance, we reevaluated all of our investments for consolidation, including our investments in sponsored investment portfolios. The adoption of the guidance resulted in sponsored investment products regulated outside the U.S. previously accounted for as voting interest entities (VOE) to be evaluated as variable interest entities (VIE) and led to the consolidation of an additional 24 portfolios that were previously accounted for as available-for-sale securities. The adoption also resulted in the consolidation of an additional eight U.S. sponsored investment portfolios that were previously accounted for as available-for-sale securities. The impact to the consolidated balance sheet upon adoption was the consolidation of \$1.6 billion of assets, \$21.3 million of liabilities, and \$672.7 million of redeemable non-controlling interests. We also reclassified \$32.5 million in accumulated other comprehensive income to retained earnings. Additional disclosures relating to consolidated voting interest entities and variable interest entities, and the impact the new accounting guidance has had on 2016, are included in Note 5.

We early adopted Accounting Standards Update No. 2016-09—Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting on July 1, 2016, which required adjustments to be reflected as of January 1, 2016. The amendments in this update changed the accounting for certain aspects of stock-based compensation awards, including the accounting for income taxes upon settlement of awards, the classification of cash flows associated with awards, and the accounting for award forfeitures. Upon implementation, we reduced retained earnings by \$9.0 million and increased other assets \$3.9 million and additional paid-in capital \$12.9 million, respectively. The \$9.0 million reduction in retained earnings is related to the reversal of cumulative forfeiture estimates, net of deferred taxes, recognized as we elected to account for forfeitures of stock-based compensation awards going forward as they occur. Lastly, the guidance requires excess tax benefits from share-based compensation awards to be reported as operating activities in the consolidated statements of cash flows rather than financing activities. As permitted by the guidance, we elected to apply this guidance retrospectively and have reclassified \$52.6 million and \$24.1 million of excess tax benefits previously disclosed as a financing activity in the statement of cash flows for the years ended December 31, 2014, and December 31, 2015, respectively, to operating activities. In 2016, the recognition of net tax benefits on exercised options and vested restricted stock relative to the stock-based compensation expense reduced our income tax provision by \$31.6 million. See Note 7 for further details on the impact this guidance had on our effective tax rate.

CONSOLIDATION

Our consolidated financial statements include the accounts of all subsidiaries and sponsored investment portfolios in which we have a controlling interest. We are generally deemed to have a controlling interest when we own the majority of the VOE or are deemed to be the primary beneficiary of a VIE. We perform an analysis of our investments to determine if the investment entity is a VOE or VIE. Our analysis involves judgment and considers several factors, including an entity's

legal organization, capital structure, the rights of the equity investment holders, our ownership interest in the entity, and our contractual involvement with the entity. We continually review and reconsider our VIE or VOE conclusions upon the occurrence of certain events such as changes to our ownership interest, changes to an entity's legal structure, or amendments to governing documents. Upon consolidation of sponsored investment portfolios, the Company retains the specialized investment company accounting principles of the underlying funds. All material accounts and transactions between consolidated entities are eliminated in consolidation.

Variable interest entities

VIEs are entities that, by design: (i) lack sufficient equity to permit the entity to finance its activities independently or (ii) have equity holders that do not have the power to direct the activities of the entity that most significantly impact the entity's economic performance, the obligation to absorb the entity's losses, or the rights to receive the entity's residual returns. We consolidate a VIE when we are the primary beneficiary, which is the party that has both: (i) the power to direct the activities of the VIE that most significantly impact its economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the VIE that could potentially be significant. Our Luxembourg-based SICAV funds and other sponsored investment portfolios regulated outside the U.S. are determined to be VIEs.

Along with VIEs that we consolidate, we also hold variable interests in other VIEs, including several investment partnerships that are not consolidated because we are not the primary beneficiary.

Redeemable non-controlling interests

We recognize redeemable non-controlling interests for the portion of the net assets of our consolidated sponsored investment portfolios held by unrelated third-party investors as their interest is convertible to cash and other assets at their option. As such, we reflect redeemable non-controlling interests as temporary equity in our consolidated balance sheets.

Investments in sponsored money market mutual funds

We do not consider our investments in our sponsored money market funds when performing our consolidation analysis as the guidance provides a scope exception for interests in entities that are required to comply with, or operate in accordance with, requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

CASH EQUIVALENTS

Cash equivalents consist primarily of short-term, highly liquid investments in our sponsored money market mutual funds. The cost of these funds is equivalent to fair value.

INVESTMENTS

Available-for-sale sponsored investment portfolios have been made for both general corporate investment purposes and to provide seed capital for newly formed funds. These investments are carried at fair value using the quoted closing net asset value, or NAV, per share of each fund as of the balance sheet date. Changes in net unrealized holding gains or losses on these investments are recognized in other comprehensive income.

We review the carrying amount of each investment on a quarterly basis and recognize an impairment charge in non-operating investment income whenever an unrealized loss is considered other than temporary. In determining whether a fund holding is other-than-temporarily impaired, we consider various factors, including the duration of time it has existed, the severity of the impairment, any subsequent changes in value, and our intent and ability to hold the fund for a period of time sufficient for an anticipated recovery in fair value. Subject to the other considerations noted above, we believe a fund holding with an unrealized loss that has persisted daily throughout the six months between quarter-ends is generally presumed to have an other-than-temporary impairment. We may also recognize an other-than-temporary impairment if particular circumstances of the underlying investment do not warrant our belief that a near-term recovery is possible.

Equity method investments consist of investments in entities, including sponsored portfolios, over which we have the ability to exercise significant influence over the operating and financial policies of the investee. The carrying values of these investments are adjusted to reflect our proportionate share of the investee's net income or loss, any unrealized gain or loss resulting from the translation of foreign-denominated financial statements into U.S. dollars, and dividends received. Our proportionate share of income or loss is included in non-operating income in our consolidated statements of income. As permitted under existing accounting guidance, we adopted a policy by which we recognize our share of UTI Asset

Management Company Limited's (UTI) earnings on a quarter lag as current financial information is not available in a timely manner. The basis difference between our carrying value and our proportionate share of UTI's book value is primarily related to consideration paid in excess of the stepped-up basis of assets and liabilities on the date of purchase.

Cost method investments consist of investments in entities over which we do not exercise significant influence over the operating and financial policies of the investee. We evaluate our equity and cost method investments for impairment when events or changes in circumstances indicate that the carrying value of the investment exceeds its fair value, and the decline in fair value is other than temporary.

Sponsored investments portfolios held as trading include seed capital investments in mutual funds and separately managed account products. The mutual funds and the underlying investments of the separately managed account products are carried at fair value.

Investments held by our consolidated sponsored investment portfolios are considered trading securities that are carried at fair value with corresponding changes in the investments' fair values reflected in non-operating income in our consolidated statements of income. These investments are valued in accordance with the valuation and pricing policy used to value our assets under management and further described in the Revenue Recognition section below.

CONCENTRATIONS OF RISK

Concentration of credit risk in accounts receivable is believed to be minimal in that our clients generally have substantial assets, including those in the investment portfolios that we manage for them.

Our investments in sponsored funds and investments held as trading expose us to market risk, that is, the potential future loss of value that would result from a decline in the fair value of each investment or its underlying net assets. Our underlying holdings of our assets under management are also subject to market risk, which may arise from changes in equity prices, credit ratings, foreign currency exchange rates, and interest rates.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost net of accumulated depreciation and amortization computed using the straight-line method. Provisions for depreciation and amortization are based on the following weighted-average estimated useful lives: computer and communications software and equipment, 3 years; buildings and improvements, 33 years; leasehold improvements, 8 years; furniture and other equipment, 7 years; and leased land, 99 years.

GOODWILL

We evaluate the carrying amount of goodwill in our consolidated balance sheets for possible impairment on an annual basis in the third quarter of each year using a fair value approach. Our evaluations have indicated that no impairment exists.

We internally conduct, manage, and report our operations as one investment advisory business. We do not have distinct operating segments or components that separately constitute a business. Accordingly, we attribute goodwill to a single reportable business segment and reporting unit—our investment advisory business.

REVENUE RECOGNITION

Fees for investment advisory services, which are based on a percentage of assets under management, and related administrative services that we provide to investment advisory clients, including our sponsored funds and portfolios, are recognized in the period that our services are provided.

Our assets under management are valued in accordance with a valuation and pricing policy that defines the valuation and pricing processes for each major type of investment held in our sponsored U.S. mutual funds and other client investment portfolios. Fair values used in our processes are primarily determined from quoted market prices; prices furnished by dealers who make markets in such securities; or from data provided by an independent pricing service that considers yield or price of investments of comparable quality, coupon, maturity, and type. Investments for which market prices are not readily available are not a material portion of our total assets under management.

Distribution and servicing fees earned from 12b-1 plans of the Advisor Class, R Class, and Variable Annuity II Class shares of our sponsored U.S. mutual funds are recognized in the period that they are earned, which is the same period that the related mutual funds recognize their expense. These fees are offset entirely by the distribution and servicing costs paid to third-party financial intermediaries that source the assets of these share classes.

We provide all services to the sponsored U.S. mutual funds under contracts that are subject to periodic review and approval by the funds' Boards. Regulations require that the funds' shareholders also approve material changes to investment advisory contracts.

Taxes billed to our clients based on our fees for services rendered are not included in revenues.

ADVERTISING

Costs of advertising are expensed the first time that the advertising takes place.

STOCK-BASED COMPENSATION

We maintain three stockholder-approved employee long-term incentive plans (2012 Long-Term Incentive Plan, 2004 Stock Incentive Plan, and 2001 Stock Incentive Plan, collectively the LTI Plans) and one stockholder-approved non-employee director plan (2007 Non-Employee Director Equity Plan). We believe that our stock-based compensation programs align the interests of our employees and directors with those of our common stockholders. As of December 31, 2016, a total of 14,490,787 shares were available for future grant under the 2012 Long-Term Incentive Plan and the 2007 Non-Employee Director Equity Plan.

Under our LTI Plans, we have issued restricted shares and restricted stock units to employees that settle in shares of our common stock after vesting. Vesting of these awards is based on the individual continuing to render service over an average 5.5-year graded schedule. All restricted shareholders and restricted stock unitholders receive non-forfeitable cash dividends and cash dividend equivalents, respectively, on our dividend payable date.

We grant performance-based restricted stock units to certain executive officers in which the number of restricted stock units ultimately retained is determined based on achievement of certain performance thresholds. The number of restricted stock units retained is also subject to the same time-based vesting requirement as the other restricted shares or restricted stock units described above. Cash dividends and cash dividend equivalents are accrued and paid to the holders of performance-based restricted stock units only after the performance period has lapsed and the performance thresholds have been met.

Under our LTI plans, we have granted qualified incentive and nonqualified fixed stock options with a maximum term of 10 years to employees. Vesting of our employee option grants is based on the individual continuing to render service and generally occurs over an average 5.5-year graded schedule. The exercise price of each option granted is equivalent to the market price of the common stock at the date of grant. We did not grant options to our employees in 2016.

We grant options, with a maximum term of 10 years, restricted shares, and restricted stock units to non-employee directors under the stockholder-approved 2007 Non-Employee Director Plan. These grants vest over six months to one year and, in the case of restricted stock units, are settled upon the non-employee directors' departure from the Board. Non-employee directors holding restricted shares receive non-forfeitable dividends while restricted stock unitholders are issued non-forfeitable dividend equivalents in the form of vested stock units on our dividend payable date.

We recognize the grant-date fair value of these awards as compensation expense ratably over the awards' requisite service period. The expense recognized prior to 2016 includes an estimate of awards that will be forfeited and considers, in the case of our performance-based restricted shares and units, the probability of the performance thresholds being met. Upon implementation of the new stock-based compensation accounting guidance, we elected to account for forfeitures as they occur. Both time-based and performance-based units are valued on the grant-date using the closing market price of our common stock.

We use the Black-Scholes option-pricing model to estimate the fair value of each option grant as follows:

| | Weighted-average | | |
|--|------------------|----------|----------|
| | 2014 | 2015 | 2016 |
| Grant-date fair value per option awarded | \$ 21.12 | \$ 17.35 | \$ 10.62 |
| Assumptions used: | | | |
| Expected life in years | 7.0 | 7.0 | 6.8 |
| Expected volatility | 30% | 27% | 20% |
| Dividend yield | 2.2% | 2.4% | 2.5% |
| Risk-free interest rate | 2.2% | 1.9% | 1.6% |

Our expected life assumptions are based on the vesting period for each option grant and our historical experience with respect to the average holding period from vesting to option exercise. The assumptions for expected volatility are based on historical experience for the same periods as our expected lives. Dividend yields are based on recent historical experience and future expectations. Risk-free interest rates are set using grant-date U.S. Treasury yield curves for the same periods as our expected lives.

EARNINGS PER SHARE

We compute our basic and diluted earnings per share under the two-class method, which considers our outstanding restricted shares and stock units, on which we pay non-forfeitable dividends as if they were a separate class of stock.

COMPREHENSIVE INCOME

The components of comprehensive income are presented in a separate statement following our consolidated statements of income and include net income, the change in net unrealized security holding gains (losses), and the change in our currency translation adjustments. The currency translation adjustments result from translating our proportionate share of the financial statements of UTI, our equity method investment, and certain consolidated investment portfolios into U.S. dollars. Assets and liabilities are translated into U.S. dollars using year-end exchange rates, and revenues and expenses are translated using weighted-average exchange rates for the period.

The changes in accumulated balances of each component of other comprehensive income, the deferred tax impacts of each component, and information about significant items reclassified out of accumulated other comprehensive income are presented in the notes to the financial statements. The notes also indicate the line item of our consolidated statements of income to which the significant reclassifications were recognized.

Notes to Consolidated Financial Statements

NOTE 1—CASH EQUIVALENTS

Cash equivalent investments in our sponsored money market mutual funds aggregate \$997.5 million at December 31, 2015, and \$1,052.3 million at December 31, 2016. Dividends earned on these investments in each of the last three years were immaterial.

NOTE 2—INFORMATION ABOUT RECEIVABLES, REVENUES, AND SERVICES

Accounts receivable from our sponsored investment portfolios, including our U.S. mutual funds, for advisory fees and advisory-related administrative services aggregate \$287.1 million at December 31, 2015, and \$303.1 million at December 31, 2016.

Revenues (in millions) from advisory services provided under agreements with our sponsored mutual funds and other investment clients include:

| | 2014 | 2015 | 2016 |
|--------------------------------------|-------------------|-------------------|-------------------|
| Sponsored U.S. mutual funds | | | |
| Stock and blended asset | \$ 2,086.0 | \$ 2,241.9 | \$ 2,228.1 |
| Bond and money market | 399.8 | 426.0 | 477.3 |
| | 2,485.8 | 2,667.9 | 2,705.4 |
| Other investment portfolios | | | |
| Stock and blended asset | 824.5 | 862.2 | 850.3 |
| Bond, money market, and stable value | 154.2 | 157.2 | 173.0 |
| | 978.7 | 1,019.4 | 1,023.3 |
| Total | \$ 3,464.5 | \$ 3,687.3 | \$ 3,728.7 |

Other investment portfolios include advisory revenues of \$313.4 million, \$367.8 million, and \$386.0 million for the year ended December 31, 2014, 2015, and 2016, respectively, that were earned on other sponsored investment portfolios.

We voluntarily waived \$58.4 million, \$47.6 million, and \$10.5 million in money market related fees, including advisory fees and fund expenses, during the year ended December 31, 2014, 2015, and 2016 respectively, in order to maintain a positive yield for investors.

The following table summarizes the investment portfolios and assets under management (in billions) on which we earn advisory fees.

| | Average during | | | As of December 31, | |
|--------------------------------------|-----------------|-----------------|-----------------|--------------------|-----------------|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| Sponsored U.S. mutual funds | | | | | |
| Stock and blended asset | \$ 359.3 | \$ 387.8 | \$ 386.1 | \$ 383.0 | \$ 401.3 |
| Bond and money market | 101.6 | 105.8 | 109.4 | 104.1 | 112.9 |
| | 460.9 | 493.6 | 495.5 | 487.1 | 514.2 |
| Other investment portfolios | | | | | |
| Stock and blended asset | 201.6 | 210.3 | 211.1 | 209.8 | 220.8 |
| Bond, money market, and stable value | 62.2 | 64.0 | 71.6 | 66.2 | 75.8 |
| | 263.8 | 274.3 | 282.7 | 276.0 | 296.6 |
| Total | \$ 724.7 | \$ 767.9 | \$ 778.2 | \$ 763.1 | \$ 810.8 |

Investors that we serve are primarily domiciled in the U.S.; investment advisory clients outside the U.S. account for 4.9% and 4.7% of our assets under management at December 31, 2015 and 2016, respectively.

The following table summarizes the other fees (in millions) earned from our sponsored U.S. mutual funds.

| | 2014 | 2015 | 2016 |
|---------------------------------|----------|----------|----------|
| Administrative fees | \$ 296.1 | \$ 292.8 | \$ 277.3 |
| Distribution and servicing fees | \$ 143.6 | \$ 151.5 | \$ 141.7 |

NOTE 3—INVESTMENTS

The carrying values of investments (in millions) we do not consolidate at December 31 are as follows:

| | 2015 | 2016 |
|--|-------------------|-------------------|
| Available-for-sale sponsored investment portfolios | \$ 1,612.3 | \$ 709.0 |
| Equity method investments | | |
| Sponsored investment portfolios | 113.7 | 252.3 |
| 26% interest in UTI Asset Management Company Limited (India) | 132.8 | 140.9 |
| Investment partnerships | 6.2 | 5.3 |
| Sponsored investment portfolios held as trading | 25.8 | 75.4 |
| Cost method investments | 69.4 | 73.6 |
| U.S. Treasury note | 1.0 | 1.0 |
| Total | \$ 1,961.2 | \$ 1,257.5 |

In connection with the adoption of the new consolidation accounting guidance on January 1, 2016, we reevaluated all of our investments for consolidation, including our investments in sponsored investment portfolios. We determined that our interests in a number of our available-for-sale holdings held at December 31, 2015, were deemed controlling interests under the new accounting standard and resulted in these sponsored investment portfolios being consolidated on January 1, 2016.

During 2015 and 2016, certain sponsored investment portfolios in which we provided initial seed capital at the time of formation were deconsolidated, as we no longer had a controlling interest. The impact of deconsolidating certain sponsored investment portfolios on our consolidated statements of income during 2015 and 2016 was a loss of \$5.8 million and a gain of \$2.2 million, respectively. These losses and gains were the result of reclassifying currency translation adjustments accumulated on sponsored investment portfolios' with non-USD functional currencies from accumulated other comprehensive income to non-operating income. Depending on our ownership interest, we are now reporting our residual interests of \$338.2 million, which is value on the date of deconsolidation or consolidation, in these sponsored investment portfolios as either equity method or available-for-sale investments.

Available-for-sale sponsored investment portfolios

The available-for-sale sponsored investment portfolios (in millions) include:

| | Aggregate cost | Unrealized holding | | Aggregate fair value |
|-------------------------------|-------------------|--------------------|------------------|----------------------|
| | | Gains | Losses | |
| December 31, 2015 | | | | |
| Stock and blended asset funds | \$ 428.6 | \$ 180.3 | \$ (9.1) | \$ 599.8 |
| Bond funds | 990.5 | 39.1 | (17.1) | 1,012.5 |
| Total | \$ 1,419.1 | \$ 219.4 | \$ (26.2) | \$ 1,612.3 |
| December 31, 2016 | | | | |
| Stock and blended asset funds | \$ 162.9 | \$ 88.0 | \$ (1.9) | \$ 249.0 |
| Bond funds | 463.3 | 1.7 | (5.0) | 460.0 |
| Total | \$ 626.2 | \$ 89.7 | \$ (6.9) | \$ 709.0 |

The following table details the number of holdings, the unrealized holding losses, and the aggregate fair value of available-for-sale sponsored investment portfolios with unrealized losses categorized by the length of time they have been in a continuous unrealized loss position:

| | Number of holdings | Unrealized holding losses | Aggregate fair value |
|---------------------|--------------------|---------------------------|----------------------|
| December 31, 2015 | | | |
| Less than 12 months | 18 | \$ (15.8) | \$ 419.6 |
| 12 months or more | 4 | (10.4) | 298.6 |
| Total | 22 | \$ (26.2) | \$ 718.2 |
| December 31, 2016 | | | |
| Less than 12 months | 8 | \$ (4.2) | \$ 328.1 |
| 12 months or more | 2 | (2.7) | 169.5 |
| Total | 10 | \$ (6.9) | \$ 497.6 |

In addition to the duration of the impairments, we reviewed the severity of the impairment as well as our intent and ability to hold the investments for a period of time sufficient for an anticipated recovery in fair value. Accordingly, these impaired investment holdings are considered temporary at December 31, 2015 and 2016.

Dividends, excluding capital gain distributions, earned on available-for-sale sponsored investment portfolios totaled \$14.7 million in 2014, \$18.1 million in 2015, and \$8.7 million in 2016.

Variable interest entities

Our investments at December 31, 2016, include \$149.2 million of investments in variable interest entities that we do not consolidate as we are not deemed the primary beneficiary. Our maximum risk of loss (in millions) related to our involvement with these entities at December 31, 2016, is as follows:

| | |
|---|-----------------|
| Investment carrying values | \$ 149.2 |
| Unfunded capital commitments | 46.4 |
| Uncollected investment advisory and administrative fees | 5.9 |
| | \$ 201.5 |

The unfunded capital commitments totaling \$46.4 million relate primarily to investment partnerships in which we have an existing investment. In addition to such amounts, a percentage of prior distributions may be called under certain circumstances.

NOTE 4—FAIR VALUE MEASUREMENTS

We determine the fair value of our cash equivalents and certain investments using the following broad levels of inputs as defined by related accounting standards:

Level 1—quoted prices in active markets for identical securities.

Level 2—observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.

Level 3—unobservable inputs reflecting our own assumptions based on the best information available. We do not value any investments using Level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with our investments. There have been no transfers between the levels. The following table summarizes our investments (in millions) that are recognized in our consolidated balance sheets using fair value measurements determined based on the differing levels of inputs.

| | Level 1 | Level 2 |
|--|-------------------|----------------|
| 2015 | | |
| Cash equivalents | \$ 997.5 | \$ — |
| Available-for-sale sponsored investment portfolios | 1,612.3 | — |
| Sponsored investment portfolios held as trading | 25.8 | — |
| Total | \$ 2,635.6 | \$ — |
| 2016 | | |
| Cash equivalents | \$ 1,052.3 | \$ — |
| Available-for-sale sponsored investment portfolios | 709.0 | — |
| Sponsored investment portfolios held as trading | 60.3 | 15.1 |
| Total | \$ 1,821.6 | \$ 15.1 |

NOTE 5—CONSOLIDATED SPONSORED INVESTMENT PORTFOLIOS

The sponsored investment portfolios that we consolidate in our consolidated financial statements are generally those products we provided initial seed capital at the time of their formation and have a controlling interest. Our U.S. sponsored investment portfolios are considered voting interest entities, while those regulated outside the U.S. are considered variable interest entities.

The following table details the net assets of the consolidated sponsored investment portfolios at December 31, 2016.

| | Voting interest entities | Variable interest entities | Total |
|--|--------------------------|----------------------------|-------------------|
| Cash and cash equivalents | \$ 10.3 | \$ 55.3 | \$ 65.6 |
| Investments | 219.3 | 1,340.6 | 1,559.9 |
| Other assets | 4.8 | 50.2 | 55.0 |
| Total assets | 234.4 | 1,446.1 | 1,680.5 |
| Liabilities | 8.8 | 56.8 | 65.6 |
| Net assets | \$ 225.6 | \$ 1,389.3 | \$ 1,614.9 |
| | | | |
| Attributable to redeemable non-controlling interests | \$ 69.5 | \$ 617.7 | \$ 687.2 |
| Attributable to T. Rowe Price Group | 156.1 | 771.6 | 927.7 |
| | \$ 225.6 | \$ 1,389.3 | \$ 1,614.9 |

Although we can redeem our net interest in these sponsored investment portfolios at any time, we cannot directly access or sell the assets held by the portfolios to obtain cash for general operations. Additionally, the assets of these investment portfolios are not available to our general creditors.

Since third-party investors in these investment funds have no recourse to our credit, our overall risk related to the net assets of consolidated sponsored investment portfolios is limited to valuation changes associated with our net interest. We, however, are required to recognize the valuation changes associated with all underlying investments held by these portfolios in our consolidated statements of income and disclose the portion attributable to third-party investors as net income attributable to redeemable non-controlling interests.

The operating results (in millions) of the consolidated sponsored investment portfolios for the year ended December 31, 2016, are reflected in our condensed consolidated statement of income as follows:

| | Voting interest entities | Variable interest entities | Total |
|---|--------------------------|----------------------------|-----------------|
| Operating expenses reflected in net operating income | \$ (1.6) | \$ (11.4) | \$ (13.0) |
| Net investment income reflected in non-operating income | 22.5 | 98.6 | 121.1 |
| Impact on income before taxes | \$ 20.9 | \$ 87.2 | \$ 108.1 |
| | | | |
| Net income attributable to T. Rowe Price Group | \$ 15.0 | \$ 54.1 | \$ 69.1 |
| Net income attributable to redeemable non-controlling interests | 5.9 | 33.1 | 39.0 |
| | \$ 20.9 | \$ 87.2 | \$ 108.1 |

The operating expenses of these consolidated portfolios are reflected in other operating expenses. For the year ended December 31, 2016, we eliminated \$6.5 million of these expenses against our investment advisory and administrative fees earned in preparing our condensed consolidated financial statements. The net investment income reflected in non-operating income includes dividend and interest income and realized and unrealized gains and losses on the underlying securities held by the consolidated sponsored investment portfolios.

The table below details the impact of these consolidated investment portfolios on the individual lines of our consolidated statement of cash flows (in millions) for the year ended December 31, 2016.

| | Voting interest entities | Variable interest entities | Total |
|--|--------------------------|----------------------------|----------------|
| Net cash provided by (used in) operating activities | \$ (80.1) | \$ (1,086.5) | \$ (1,166.6) |
| Net cash provided by (used in) investing activities | 21.6 | 19.8 | 41.4 |
| Net cash provided by (used in) financing activities | 68.8 | 1,124.1 | 1,192.9 |
| Effect of exchange rate changes on cash and cash equivalents of consolidated sponsored investment portfolios | — | (2.1) | (2.1) |
| Net change in cash and cash equivalents during period | 10.3 | 55.3 | 65.6 |
| Cash and cash equivalents at beginning of year | — | — | — |
| Cash and cash equivalents at end of period | \$ 10.3 | \$ 55.3 | \$ 65.6 |

The net cash provided by (used in) financing activities during 2016 includes \$277.9 million of net subscriptions we made into the consolidated sponsored investment portfolios, net of dividends received. These cash flows were eliminated in consolidation.

Fair value measurements

We determine the fair value of investments held by consolidated sponsored investment portfolios using the following broad levels of inputs as defined by related accounting standards:

Level 1—quoted prices in active markets for identical securities.

Level 2—observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.

Level 3—unobservable inputs reflecting our own assumptions based on the best information available. We do not value any investments using Level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with these investment holdings. There have been no material transfers between the levels. The following table summarizes the investment holdings held by our consolidated sponsored investment portfolios (in millions) using fair value measurements determined based on the differing levels of inputs.

| | Level 1 | Level 2 |
|-------------------------|-----------------|-------------------|
| December 31, 2015 | | |
| Assets | | |
| Equity securities | \$ 2.8 | \$ 11.2 |
| Fixed income securities | — | 43.0 |
| Other investments | .7 | — |
| | \$ 3.5 | \$ 54.2 |
| December 31, 2016 | | |
| Assets | | |
| Cash equivalents | \$ 8.8 | \$.8 |
| Equity securities | 281.8 | 325.3 |
| Fixed income securities | — | 918.1 |
| Other investments | .4 | 34.3 |
| | \$ 291.0 | \$ 1,278.5 |
| Liabilities | \$ (.6) | \$ (13.6) |

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment (in millions) at December 31 consists of:

| | 2015 | 2016 |
|--|-----------------|-----------------|
| Computer and communications software and equipment | \$ 610.8 | \$ 704.0 |
| Buildings and improvements | 415.1 | 422.0 |
| Leasehold improvements | 98.7 | 108.2 |
| Furniture and other equipment | 145.9 | 158.3 |
| Land | 40.3 | 40.3 |
| Leased land | 2.7 | 2.7 |
| | 1,313.5 | 1,435.5 |
| Less accumulated depreciation and amortization | 706.4 | 820.4 |
| Total | \$ 607.1 | \$ 615.1 |

Compensation and related costs attributable to the development of computer software for internal use totaling \$19.6 million in 2014, \$22.3 million in 2015, and \$28.9 million in 2016 have been capitalized.

We occupy certain office facilities and lease computer and other equipment under noncancelable operating leases. Related rental expense was \$29.3 million in 2014, \$31.1 million in 2015, and \$32.8 million in 2016. Future minimum payments under these leases aggregate \$29.1 million in 2017, \$32.0 million in 2018, \$31.4 million in 2019, \$27.9 million in 2020, \$26.2 million in 2021, and \$115.1 million in later years.

NOTE 7—INCOME TAXES

The provision for income taxes (in millions) consists of:

| | 2014 | 2015 | 2016 |
|--------------------------------------|-----------------|-----------------|-----------------|
| Current income taxes | | | |
| U.S. federal | \$ 635.8 | \$ 669.5 | \$ 573.7 |
| State and local | 126.8 | 134.3 | 105.8 |
| Foreign | 16.3 | 18.9 | 13.5 |
| Deferred income taxes (tax benefits) | (5.4) | (43.3) | 13.5 |
| Total | \$ 773.5 | \$ 779.4 | \$ 706.5 |

Deferred income taxes and benefits arise from temporary differences between taxable income for financial statement and income tax return purposes. The deferred income taxes (tax benefits) recognized as part of our provision for income taxes is related to:

| | 2014 | 2015 | 2016 |
|--|-----------------|------------------|----------------|
| Property and equipment | \$ 2.0 | \$ (2.3) | \$ 3.2 |
| Stock-based compensation | (11.2) | (14.6) | 1.3 |
| Accrued compensation | (.1) | (.9) | (1.7) |
| Supplemental savings plan liability | — | (27.4) | (30.9) |
| Other-than-temporary impairments of available-for-sale investments | 4.7 | (.4) | 10.0 |
| Unrealized holding gains recognized in non-operating income | (5.2) | (2.4) | 31.6 |
| Other | 4.4 | 4.7 | — |
| Total deferred income taxes (tax benefits) | \$ (5.4) | \$ (43.3) | \$ 13.5 |

The following table reconciles the statutory federal income tax rate to our effective income tax rate.

| | 2014 | 2015 | 2016 |
|---|--------------|--------------|--------------|
| Statutory U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes for current year, net of federal income tax benefits | 4.0 | 4.3 | 3.8 |
| Net income attributable to redeemable noncontrolling interests | — | — | (.7) |
| Net excess tax benefits from stock-based compensation plans activity | — | — | (1.7) |
| Other items | (.4) | (.4) | (.4) |
| Effective income tax rate | 38.6% | 38.9% | 36.0% |

The net deferred tax assets (in millions) recognized in our consolidated balance sheets in other assets relate to the following:

| | December 31, | 2015 | 2016 |
|---|--------------|--------------|-----------------|
| Deferred tax liabilities | | | |
| Property and equipment | \$ | (36.0) | \$ (39.2) |
| Net unrealized holding gains recognized in income ⁽¹⁾ | | — | (43.2) |
| Net unrealized holding gains on available-for-sale portfolio ⁽¹⁾ | | (74.2) | (33.4) |
| Other | | (26.3) | (27.5) |
| | | (136.5) | (143.3) |
| Deferred tax assets | | | |
| Stock-based compensation ⁽²⁾ | | 162.5 | 165.1 |
| Other-than-temporary impairments of investments in sponsored funds | | 26.1 | 16.1 |
| Accrued compensation | | 3.9 | 5.6 |
| Supplemental savings plan | | 27.4 | 58.3 |
| Currency translation adjustment ⁽¹⁾ | | 18.3 | 23.0 |
| Other | | 12.1 | 7.7 |
| | | 250.3 | 275.8 |
| Net deferred tax asset | \$ | 113.8 | \$ 132.5 |

⁽¹⁾Upon adoption of ASU 2015-2 on January 1, 2016, \$17.0 million of deferred tax liabilities associated with unrealized holding gains on our available-for-sale portfolio and \$.3 million of deferred tax assets associated with currency translation adjustments were reclassified to deferred tax liabilities associated with unrealized holding gains recognized in income as the related sponsored investment portfolios are now consolidated and underlying investments are accounted for as trading investments.

⁽²⁾Upon adoption of ASU 2016-9 on January 1, 2016, we elected to account for forfeitures of stock-based compensation awards as they occur; therefore, the related deferred tax asset was increased \$3.9 million for the cumulative effect adjustment recognized upon implementation of the new guidance.

A deferred tax liability for unremitted earnings of our foreign subsidiaries has not been recognized, as it is our intention to indefinitely reinvest these earnings outside the U.S. The unremitted earnings of these subsidiaries are estimated to be \$464 million at December 31, 2016. If these earnings were distributed to the U.S. in the form of dividends or otherwise, or if any of the entities were sold or otherwise transferred, we would be subject to U.S. income taxes, less any foreign tax credits. Determination of the amount of the unrecognized deferred tax liability related to these earnings is not practicable.

Other assets includes tax refund receivables of \$2.4 million at December 31, 2015, and \$8.1 million at December 31, 2016.

Cash outflows from operating activities include net income taxes paid of \$763.7 million in 2014, \$778.6 million in 2015, and \$680.6 million in 2016.

Additional income tax benefits of \$53.4 million in 2014 and \$23.2 million in 2015 arising from stock-based compensation plans activity reduced the amount of income taxes that would have otherwise been payable. The additional income tax benefits related to stock-based compensation in 2016 totaled \$31.6 million and were recognized in the income tax provision.

The following table summarizes the changes in our unrecognized tax benefits (in millions).

| | 2014 | 2015 | 2016 |
|-------------------------------------|---------------|---------------|---------------|
| Balance at beginning of year | \$ 4.8 | \$ 5.6 | \$ 5.8 |
| Changes in tax positions related to | | | |
| Current year | 1.0 | .7 | .6 |
| Prior years | (.2) | 1.8 | — |
| Expired statute of limitations | — | (2.3) | (.2) |
| Balance at end of year | \$ 5.6 | \$ 5.8 | \$ 6.2 |

If recognized, these tax benefits would affect our effective tax rate; however, we do not expect that unrecognized tax benefits for tax positions taken with respect to 2016 and prior years will significantly change in 2017. The U.S. has concluded examinations related to federal tax obligations through the year 2015. A net interest payable related to our unrecognized tax benefits of \$.9 million at December 31, 2015, and \$1.2 million at December 31, 2016, are recognized in our consolidated balance sheets. Our accounting policy with respect to interest and penalties arising from income tax settlements is to recognize them as part of our provision for income taxes. Interest recognized as part of our provision for income taxes was not material.

NOTE 8—STOCKHOLDERS' EQUITY

Share repurchases

The Board of Directors has authorized the future repurchase of up to 21,796,197 common shares as of December 31, 2016.

Dividends

Regular cash dividends declared per share were \$1.76 in 2014, \$2.08 in 2015, and \$2.16 in 2016. A \$2.00 per share special dividend was also declared and paid during 2015.

Restricted capital

Our consolidated stockholders' equity at December 31, 2016, includes about \$120 million that is restricted as to use by various regulations and agreements arising in the ordinary course of our business.

NOTE 9—STOCK-BASED COMPENSATION

Shares authorized for stock-based compensation programs

At December 31, 2016, a total of 43,550,967 shares of unissued common stock were authorized for issuance under our stock-based compensation plans. Additionally, a total of 561,646 shares are authorized for issuance under a plan whereby substantially all employees may acquire common stock through payroll deductions at prevailing market prices.

Stock options

The following table summarizes the status of and changes in our stock option grants during 2016.

| | Options | Weighted-average exercise price | Weighted-average remaining contractual term in years |
|---|-------------------|---------------------------------|--|
| Outstanding at December 31, 2015 | 30,818,229 | \$ 59.24 | |
| Non-employee director grants | 26,100 | \$ 69.56 | |
| Exercised | (5,943,654) | \$ 47.21 | |
| Forfeited | (497,671) | \$ 72.26 | |
| Expired | (38,682) | \$ 74.26 | |
| Outstanding at December 31, 2016 | 24,364,322 | \$ 61.90 | 5.1 |
| Exercisable at December 31, 2016 | 17,528,991 | \$ 57.17 | 4.2 |

Compensation and related costs includes a charge for stock option-based compensation expense of \$63.4 million in 2014, \$63.7 million in 2015, and \$44.9 million in 2016.

The total intrinsic value of options exercised was \$196.5 million in 2014, \$108.1 million in 2015, and \$150.5 million in 2016. At December 31, 2016, the aggregate intrinsic value of in-the-money options outstanding was \$345.9 million, including \$323.4 million related to options exercisable.

Restricted shares and stock units

The following table summarizes the status of and changes in our nonvested restricted shares and restricted stock units during 2016.

| | Restricted shares | Restricted stock units | Weighted-average fair value |
|--|-------------------|------------------------|-----------------------------|
| Nonvested at December 31, 2015 | 1,470,827 | 2,216,431 | \$ 74.66 |
| Time-based grants | 5,200 | 2,795,029 | \$ 69.66 |
| Performance-based grants | — | 259,312 | \$ 69.94 |
| Vested (value at vest date was \$76.7 million) | (483,481) | (524,233) | \$ 73.18 |
| Forfeited | (61,038) | (112,078) | \$ 74.54 |
| Nonvested at December 31, 2016 | 931,508 | 4,634,461 | \$ 72.19 |

The nonvested at December 31, 2016, includes 14,400 performance-based restricted shares and 403,448 performance-based restricted stock units. These nonvested performance-based restricted shares and units include 14,400 shares and 116,865 units for which the performance period has lapsed and the performance threshold has been met.

Compensation and related costs includes expenses for restricted shares and restricted stock units of \$70.0 million in 2014, \$85.3 million in 2015, and \$116.7 million in 2016.

At December 31, 2016, non-employee directors held 61,397 vested stock units that will convert to common shares upon their separation from the Board.

Future stock-based compensation expense

The following table presents the compensation expense (in millions) to be recognized over the remaining vesting periods of the stock-based awards outstanding at December 31, 2016. Estimated future compensation expense will change to reflect future option grants, future awards of unrestricted shares and restricted stock units, changes in the probability of performance thresholds being met, and adjustments for actual forfeitures.

| | |
|---------------------|-----------------|
| First quarter 2017 | \$ 37.5 |
| Second quarter 2017 | 37.5 |
| Third quarter 2017 | 37.6 |
| Fourth quarter 2017 | 33.6 |
| Total 2017 | 146.2 |
| 2018 through 2021 | 157.5 |
| Total | \$ 303.7 |

NOTE 10—EARNINGS PER SHARE CALCULATIONS

The following table presents the reconciliation (in millions) of net income attributable to T. Rowe Price Group to net income allocated to our common stockholders and the weighted-average shares (in millions) that are used in calculating the basic and diluted earnings per share on our common stock. Weighted-average common shares outstanding assuming dilution reflect the potential dilution, determined using the treasury stock method, that could occur if outstanding stock options were exercised and non-participating stock awards vested.

| | 2014 | 2015 | 2016 |
|--|-------------------|-------------------|-------------------|
| Net income attributable to T. Rowe Price Group | \$ 1,229.6 | \$ 1,223.0 | \$ 1,215.0 |
| Less: net income allocated to outstanding restricted stock and stock unitholders | 14.2 | 16.1 | 25.5 |
| Net income allocated to common stockholders | \$ 1,215.4 | \$ 1,206.9 | \$ 1,189.5 |
| Weighted-average common shares | | | |
| Outstanding | 259.6 | 254.6 | 245.5 |
| Outstanding assuming dilution | 267.4 | 260.9 | 250.3 |

The following table shows the weighted-average outstanding stock options (in millions) that are excluded from the calculation of diluted earnings per common share as the inclusion of such shares would be anti-dilutive.

| | 2014 | 2015 | 2016 |
|---|------|------|------|
| Weighted-average outstanding stock options excluded | 3.8 | 6.4 | 9.9 |

NOTE 11—OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the deferred tax benefits (income taxes) impact of the components (in millions) of other comprehensive income.

| | 2014 | 2015 | 2016 |
|---|----------------|----------------|----------------|
| Deferred tax benefits (income taxes) on: | | | |
| Net unrealized holding gains or losses | \$.8 | \$ 5.1 | \$.6 |
| Reclassification adjustments recognized in the provision for income taxes: | | | |
| Capital gain distributions | 11.9 | 7.9 | 2.4 |
| Net gains realized on dispositions | 18.8 | 20.7 | 20.9 |
| Other-than-temporary impairments | — | (1.9) | — |
| Net deferred tax benefits (income taxes) on net unrealized holding gains or losses recognized in other comprehensive income | 31.5 | 31.8 | 23.9 |
| Currency translation adjustments | .7 | 3.8 | 3.5 |
| Reclassification adjustment recognized in the provision for income taxes upon deconsolidation of sponsored fund subsidiary | \$ — | \$ (1.2) | \$.8 |
| Total deferred tax benefits (income taxes) on currency translation adjustments | \$.7 | \$ 2.6 | \$ 4.3 |
| Total deferred tax benefits (income taxes) | \$ 32.2 | \$ 34.4 | \$ 28.2 |

The changes (in millions) in each component of accumulated other comprehensive income for each year ended December 31 are presented below.

| | Currency translation adjustments | | | | Total |
|--|----------------------------------|---------------------------|---|--|-----------------|
| | Net unrealized holding gains | Equity method investments | Consolidated sponsored investment portfolios—variable interest entities | Total currency translation adjustments | |
| Balances at December 31, 2013 | \$ 216.3 | \$ (26.9) | \$ (1.1) | \$ (28.0) | \$ 188.3 |
| Other comprehensive income (loss) before reclassifications and income taxes | (1.9) | 1.8 | (3.6) | (1.8) | (3.7) |
| Reclassification adjustments recognized in non-operating investment income | (80.4) | — | — | — | (80.4) |
| | (82.3) | 1.8 | (3.6) | (1.8) | (84.1) |
| Deferred tax benefits (income taxes) | 31.5 | (.6) | 1.3 | .7 | 32.2 |
| Other comprehensive income (loss) | (50.8) | 1.2 | (2.3) | (1.1) | (51.9) |
| Balances at December 31, 2014 | 165.5 | (25.7) | (3.4) | (29.1) | 136.4 |
| Other comprehensive income (loss) before reclassifications and income taxes | (4.5) | (8.1) | (4.9) | (13.0) | (17.5) |
| Reclassification adjustments recognized in non-operating investment income | (72.5) | — | 5.8 | 5.8 | (66.7) |
| | (77.0) | (8.1) | .9 | (7.2) | (84.2) |
| Deferred tax benefits (income taxes) | 31.8 | 2.9 | (.3) | 2.6 | 34.4 |
| Other comprehensive income (loss) | (45.2) | (5.2) | .6 | (4.6) | (49.8) |
| Balances at December 31, 2015 | 120.3 | (30.9) | (2.8) | (33.7) | 86.6 |
| Reclassification of accumulated other comprehensive income to retained earnings upon adoption of the new consolidation accounting guidance | (32.0) | (.5) | — | (.5) | (32.5) |
| Balance at January 1, 2016 | 88.3 | (31.4) | (2.8) | (34.2) | 54.1 |
| Other comprehensive income (loss) before reclassifications and income taxes | (7.0) | (1.6) | (7.0) | (8.6) | (15.6) |
| Reclassification adjustments recognized in non-operating investment income | (53.0) | — | (2.2) | (2.2) | (55.2) |
| | (60.0) | (1.6) | (9.2) | (10.8) | (70.8) |
| Deferred tax benefits (income taxes) | 23.9 | .7 | 3.6 | 4.3 | 28.2 |
| Other comprehensive income (loss) | (36.1) | (.9) | (5.6) | (6.5) | (42.6) |
| Balances at December 31, 2016 | \$ 52.2 | \$ (32.3) | \$ (8.4) | \$ (40.7) | \$ 11.5 |

NOTE 12—DELL APPRAISAL RIGHTS MATTER

In 2016, we paid \$166.2 million to compensate certain T. Rowe Price mutual funds, trusts, separately managed accounts, and subadvised clients (collectively, "Clients") for the denial of their appraisal rights by the Delaware Chancery Court (Court) in connection with the 2013 leveraged buyout of Dell, Inc. (Dell).

The Court ruled on May 11, 2016, that the Clients could not pursue an appraisal of any shares they held that were voted in favor of the Dell merger. The appraisal statute governing the transaction required the record holder to vote against or abstain from voting on the transaction in order to assert appraisal rights. After previously voting against prior transaction proposals, the voting instructions submitted on behalf of the Clients in connection with voting on the final proposed transaction were incorrectly submitted in favor of the transaction. On May 31, 2016, the Court determined that the fair value of Dell at the time of the merger was \$17.62 per share, as opposed to the \$13.75 price offered in the transaction. As a result, any shareholder perfecting appraisal rights is entitled to a payment at \$17.62 per share plus statutory interest from the date the Dell transaction closed. The compensation to Clients was intended to make them whole for the voting discrepancy that resulted in the denial of their appraisal rights.

On December 30, 2016, we signed a settlement agreement with our insurance carrier for insurance proceeds totaling \$100.0 million related to this matter. We recognized the proceeds as a reduction to the \$166.2 million nonrecurring charge that we previously recognized during 2016 and have included a receivable for the proceeds in other assets at December 31, 2016. We received the insurance proceeds on January 24, 2017. Remaining insurance claims filed with respect to this matter that could result in an additional recovery of up to \$50 million are still pending.

NOTE 13—OTHER DISCLOSURES

Contingencies

From time to time, various claims against us arise in the ordinary course of business, including employment-related claims. In the opinion of management, after consultation with counsel, the likelihood that an adverse determination in one or more pending claims would have a material adverse effect on our financial position or results of operations is remote.

Retirement plans

Compensation and related costs includes expense recognized for our defined contribution retirement plans of \$70.6 million in 2014, \$74.9 million in 2015, and \$80.7 million in 2016.

Supplemental Savings Plan

The Supplemental Savings Plan, effective January 1, 2015, provides certain senior officers the opportunity to defer receipt of up to 100% of their cash incentive compensation earned for a respective calendar year during which services are provided. The amounts deferred are adjusted in accordance with the hypothetical investments chosen by the officer from a list of mutual funds. The officer can initially defer these amounts for a period of two to 15 years. For the year-ended December 31, 2015 and 2016, senior officers elected to defer \$72.8 million and \$83.4 million, respectively.

NOTE 14—SUPPLEMENTARY CONSOLIDATING CASH FLOW SCHEDULE

The following table summarizes the cash flows (in millions) for the year ended December 31, 2016, that are attributable to T. Rowe Price Group, our consolidated sponsored investment portfolios, and the related eliminations required in preparing the statement.

Report of Management on Internal Control Over Financial Reporting

To the Stockholders of T. Rowe Price Group, Inc.:

We, together with other members of management of T. Rowe Price Group, Inc., are responsible for establishing and maintaining adequate internal control over the company's financial reporting. Internal control over financial reporting is the process designed under our supervision, and effected by the company's Board of Directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

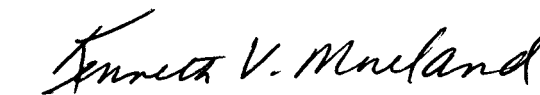
Management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2016, in relation to criteria described in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, we believe that the company's internal control over financial reporting was effective as of December 31, 2016.

KPMG LLP, an independent registered public accounting firm, has audited our financial statements that are included in this annual report and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of our internal control over financial reporting as of December 31, 2016.

February 7, 2017



William J. Stromberg
President and Chief Executive Officer



Kenneth V. Moreland
Vice President, Chief Financial Officer and Treasurer

For year ended December 31, 2016

| | As reported for the year ended 12/31/2015 | Cash flow attributable to T. Rowe Price Group | Cash flow attributable to consolidated sponsored investment portfolios | Eliminations | As reported on statement of cash flows |
|--|---|--|---|--------------|--|
| Cash flows from operating activities | | | | | |
| Net income | \$ 1,223.0 | \$ 1,215.0 | \$ 108.1 | \$ (69.1) | \$ 1,254.0 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | | | | |
| Depreciation and amortization of property and equipment | 126.3 | 133.4 | — | — | 133.4 |
| Stock-based compensation expense | 149.0 | 161.6 | — | — | 161.6 |
| Realized gains on dispositions of available-for-sale sponsored investment portfolios | (56.5) | (53.0) | — | — | (53.0) |
| Net gains recognized on investments | (5.9) | (100.1) | — | 69.1 | (31.0) |
| Net change in trading securities held by consolidated sponsored investment portfolios | (7.5) | — | (1,297.9) | — | (1,297.9) |
| Other changes in assets and liabilities | 102.1 | (13.2) | 23.2 | (6.6) | 3.4 |
| Net cash provided by (used in) operating activities | 1,530.5 | 1,343.7 | (1,166.6) | (6.6) | 170.5 |
| Net cash provided by (used in) investing activities | 109.0 | (219.7) | 41.4 | 284.5 | 106.2 |
| Net cash provided by (used in) financing activities | (1,973.3) | (1,091.4) | 1,192.9 | (277.9) | (176.4) |
| Effect of exchange rate changes on cash and cash equivalents of consolidated sponsored investment portfolios | — | — | (2.1) | — | (2.1) |
| Net change in cash and cash equivalents during period | (333.8) | 32.6 | 65.6 | — | 98.2 |
| Cash and cash equivalents at beginning of year | 1,506.1 | 1,172.3 | — | — | 1,172.3 |
| Cash and cash equivalents at end of period | \$ 1,172.3 | \$ 1,204.9 | \$ 65.6 | \$ — | \$ 1,270.5 |

NOTE 15—SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Net revenues | Net income | Net income attributable to T. Rowe Price Group | Basic earnings on common stock ⁽¹⁾ | Diluted earnings on common stock ⁽¹⁾ |
|----------------------------|---------------|------------|--|--|---|
| | (in millions) | | | (per share) | |
| 2015 | | | | | |
| 1st quarter | \$ 1,027.0 | \$ 309.5 | \$ 309.5 | \$ 1.16 | \$ 1.13 |
| 2nd quarter | \$ 1,072.4 | \$ 333.2 | \$ 333.2 | \$ 1.28 | \$ 1.24 |
| 3rd quarter | \$ 1,049.0 | \$ 277.1 | \$ 277.1 | \$ 1.08 | \$ 1.06 |
| 4th quarter | \$ 1,052.2 | \$ 303.2 | \$ 303.2 | \$ 1.20 | \$ 1.17 |
| 2016⁽²⁾ | | | | | |
| 1st quarter ⁽³⁾ | \$ 994.1 | \$ 313.3 | \$ 304.1 | \$ 1.21 | \$ 1.18 |
| 2nd quarter ⁽³⁾ | \$ 1,044.7 | \$ 211.2 | \$ 203.3 | \$.81 | \$.79 |
| 3rd quarter | \$ 1,092.9 | \$ 362.7 | \$ 327.8 | \$ 1.30 | \$ 1.28 |
| 4th quarter | \$ 1,091.2 | \$ 366.8 | \$ 379.8 | \$ 1.53 | \$ 1.50 |

⁽¹⁾The sums of quarterly earnings per share do not equal annual earnings per share because the computations are done independently.

⁽²⁾The second quarter of 2016 includes a nonrecurring operating charge of \$166.2 million, or \$.39 in diluted earnings per share, related to our decision to compensate certain clients in regard to the Dell appraisal rights matter. In the fourth quarter of 2016, we recognized an offset to this charge for a related insurance recovery of \$100 million, or \$.24 in diluted earnings per share. For more details related to the Dell appraisal rights matter, see Note 12 to the consolidated financial statements.

⁽³⁾Net income, net income attributable to T. Rowe Price Group, and earnings per share data have been restated for the early adoption of ASU 2016-9 Improvements to Employee Share-Based Payment Accounting. See the *Summary of Significant Accounting Policies* in the notes to the consolidated financial statements contained in Part II, Item 8 of this filing for more information related to the impact of this new guidance.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

T. Rowe Price Group, Inc.:

We have audited the accompanying consolidated balance sheets of T. Rowe Price Group, Inc. and subsidiaries (“the Company”) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), T. Rowe Price Group, Inc.’s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 7, 2017 expressed an unqualified opinion on the effectiveness of T. Rowe Price Group, Inc.’s internal control over financial reporting.



Baltimore, Maryland
February 7, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

T. Rowe Price Group, Inc.:

We have audited T. Rowe Price Group, Inc.’s (“the Company”) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, T. Rowe Price Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 7, 2017, expressed an unqualified opinion on those consolidated financial statements.



Baltimore, Maryland
February 7, 2017

CORPORATE HEADQUARTERS

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United States

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Frankfurt, Germany

Hong Kong

Milan, Italy

Tokyo, Japan

Luxembourg

Amsterdam, Netherlands

Singapore

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U.S. INVESTOR CENTERS

Colorado Springs, Colorado

Washington, D.C.

Tampa, Florida

Baltimore, Maryland

Owings Mills, Maryland

Tysons Corner, Virginia

ADDITIONAL INFORMATION

SEC FORM 10-K

A paper copy is available, at no charge, by sending a written request to:

DAVID OESTREICHER

Corporate Secretary
T. Rowe Price Group, Inc.
100 East Pratt Street
Baltimore, MD 21202
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A copy is available on our website:

troweprice.com

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Shareowner Services
P.O. Box 64854
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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
Baltimore, MD

ANNUAL MEETING

April 26, 2017, at 10 a.m.
T. Rowe Price Group, Inc.
Owings Mills Corporate Campus
4435 Painters Mill Road
Owings Mills, MD 21117

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The front section and cover, 43% of the publication, were printed on 30% recycled paper; the financial section of the report, 57% of the publication, was printed on 100% recycled paper. The responsible paper selection and printing of the annual report has saved more than 19,165 gallons of water, 1,283 pounds of solid waste, and 1,213 pounds of emissions.

